



| REPORT

# **Premium Loyalty programmes:** Taking the next step for deeper customer engagement

dunnhumby



In 2020 we saw several major retailers launch premium loyalty programs, where customers pay upfront for exclusive benefits. With more premium programmes scheduled for launch in 2021, this is a trend that will continue in the coming months.

## Why are customers seeking value differently now?

Of course, Amazon Prime is the program that started this trend. Since its launch in 2005, the world's leading premium loyalty program has had an impact on consumers' expectations within retail overall. Over the last 15 years consumers have gradually become accustomed to paying for benefits upfront, rather than collecting points and earning benefits later down the line. Not only this, but customers have confidence that they are receiving more value than what they're paying for — Amazon Prime has been estimated to deliver over \$700 USD in value to customers, while only costing customers \$119 USD a year<sup>1</sup>.

Another driver for the recent increase of premium programs is the spending power of millennials. This demographic has grown up with subscriptions — Netflix and Xbox Live for example — and are comfortable paying for convenience; in fact it has become expected. Driven by these popular on-demand services and the spread of Amazon Prime, there's now an expectation of on-demand products and services from retailers across all industries.

The pandemic has only expedited a deep need for value. In a time of high unemployment, increased online shopping and frequent stock-piling, value needs to be considered both in terms of convenience and monetary savings.

<sup>1</sup><https://www.businessinsider.com/amazon-prime-membership-should-cost-785-2018-5>

# Getting the loyalty framework and value exchange right

When looking at value and the value exchange, premium loyalty schemes need to add more than functional value to attract and maintain customer engagement. The loyalty framework, that forms the basis of most effective loyalty schemes, is a good place to start.



## The functional foundations

Every customer taking part in a loyalty programme will expect a certain level of functional value, whether points for rewards or special offers. This functional value must be transparent. In return the customer will provide the retailer with a functional level of loyalty and custom, potentially adding more items to their basket or visiting more frequently. This generates increased sales and a functional level of loyalty ... but nothing more.

## Improving the experience

Retailers and brands that want to improve their customers' loyalty engagement, then add elements above the foundational basics to improve the experience and enhance the value exchange. This includes frictionless offerings – apps, scan as you shop, relevant offers, regular communications, or member pricing. Customers start to engage at a deeper level, potentially engaging with wider brand offerings and again deepen the value exchange.

## The emotional differentiators

The most successful loyalty schemes are those that offer, or start to offer, emotional differentiators layering above the functional value. This moves towards a more personalised relationship, recognising your tenure, enhanced preference based content, living your values, community support, feeling of membership/club, tiering, special prices for partner brands, saving value to get it topped up are all examples of emotional value.

The aim is to get customers to move through functional value towards the attractive emotional value and thereby loyalty. When customers move into this space, they typically choose to shop with a brand no matter what; they will spend more over the long term and advocate the brand to friends and family.

It is these highly engaged, emotionally loyal customers who are the target audience for a subscription-based model – a final 'cherry at the top'.

## The premium experience

Amazon Prime, Tesco Clubcard Plus or Tesco Delivery Saver are examples of loyalty schemes that have moved customers up the 'loyalty ladder' into the emotional value exchange to such an extent that customers are willing to pay upfront for the privilege of a special service or offer. These customers are already in a place where they are warm to a new proposition from a brand that they now feel emotionally connected to. However, they are savvy – the value exchange needs to be obvious and worth it. They will pay up front, but they expect to be treated differently – they know not every customer will be keen or in a position to do this, so they expect to get a significantly enhanced level of reward back.

A premium loyalty scheme in many ways is an evolution of the loyalty schemes where the customer must jump a small hurdle to get the full value of the scheme. The 'hurdle' is now in the form of an upfront payment, rather than delayed gratification when you collect and hold your rewards. But like traditional schemes, the reward, or value must be transparent and compelling.

For example, in the UK **Tesco Clubcard Plus customers pay £7.99 a month** for access to a range of benefits – the most attractive being

**10% off up to two £200 Big Shops a month.** It takes a quick calculation to know that with **a saving of at least £40 a month** it has an incredibly positive value exchange. Like Amazon Prime – where free next day delivery is the anchor benefit – Clubcard Plus also has a suite of offers, but it's the simplicity of the anchor benefit of 10% off a big shop that attracts and retains the premium customer.



<sup>2</sup>2021 Loyalty Industry Data Study of 300 marketing and loyalty professionals across the US by RetailTouchpoints

## Understanding different value for different customer groups

Value can also mean quite different things to different people. Therefore, a premium loyalty programme needs to understand its customer core needs first to create a value exchange that ensures customers feel that they are getting so much more than the price of a subscription, as touched upon above.

But to get that value exchange right, a deep understanding of the core or target customer group – attitudinal and behavioural – should form the basis of the premium proposition development. At dunnhumby our experience in identifying the right target audience to meet the business objectives, is best achieved using a 'test and learn' approach long before the proposition is rolled out to the base. Often the audience that the business initially believes will be the target may change once trials have been analysed, thereby changing the proposition and value exchange to maximise the effectiveness of roll out.

By the very nature of the premium programme proposition, it's likely that the target audience will be self-selecting and have a strong affluence bias. Ensuring that time is spent on creating the right package of premium benefits that are most attractive to the

core cohort will maximise uptake of the proposition and achieve less attrition in the short term.

For high affluence customers, value is more likely to be around 'make my life easier'; free delivery, convenience and digital propositions, or 'show me that you know me' personalised offerings reflecting values. For family cohorts, value and convenience will play key roles.

All customer groups, however, will share the need for the value exchange to be digital, immediate and provide transparent assurance that by paying upfront the customer will get a significant benefit back. When brands get this right at the outset they will benefit from recruiting the right customers to the proposition, reduce churn and build greater engagement.

Retailers and brands shouldn't expect the premium loyalty proposition to pay back in the short term – yes it's a new revenue stream, but it's the long-term play of locked in loyalty, significantly enhanced sales uplift and emotional loyalty to the brand that will pay dividends over the coming years.

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**51% of retailers with premium loyalty programs consider programme members to be at least four times as valuable as non-members<sup>2</sup>**



# Designing the optimum premium programme

First and foremost, retailers must be clear on the objective of their premium programme. This will ensure that the design of the programme drives the customer behaviour that they're seeking.

## Simple and easy to understand

**When it comes to premium loyalty programmes, customers need to understand that they're receiving more value than what they're paying for.** Without the value equation balanced in the customer's favour, customers are simply not going to subscribe. The clearer that this value equation can be communicated to customers, the better, as it eliminates any calculations and guesswork on the customer's end.

Keeping the offering clear and simple is key, so where retailers have an existing loyalty program already in place, it's important to consider how the premium programme will layer on top. The premium programme must supply clearly delineated additional benefits, without overlapping or adding confusion for customers.

Although it can be another layer of complication for customers, when the premium programme is clearly defined, having an existing loyalty programme in place is certainly a benefit. The existing programme gives retailers a head start on understanding the needs and motivations of their loyal customers, and gives them a highly relevant pool of candidates to recruit from for the premium programme.

Having said that, retailers don't necessarily need an existing loyalty programme to launch a successful premium programme. Take Walmart+ and Amazon Prime for example where launching these subscription services was very clear from a customer perspective since there was no established loyalty programme already in place.

## Offer compelling benefits

In addition to being simple and easy to understand, a premium programme must offer compelling benefits. As outlined earlier, if you're asking customers to pay an upfront fee, it must be for benefits that appeal to them by making their lives easier, allowing them to save money or offering them unique experiences

It's important to determine what 'compelling' means to your customers specifically. There is no 'one size fits all', every retailer has customers with specific preferences, motivations and needs. While it's important to understand what the rest of the market is offering, it's unhelpful following the market leader and simply offering common benefits like 'free shipping' if it's not what your customers are looking for.

So how do you know what your customers are looking for? By researching what your customers want from you, specifically your most loyal customers as these are the ones that the premium programme will most appeal to, and then designing a set of benefits based on these findings. On top of this, make sure to keep the benefits relevant to your brand.

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Getting the benefits and value equation right is a tricky balance, and yet it's important to be fully confident in the benefits that are being offered because customers are often purchasing monthly or even annual subscriptions, and the retailer has made a commitment to offer the benefits for that time period, so it's difficult to pivot, change, or remove benefits in future for any reason.

A great way to achieve this is to pilot these benefits in certain regions, or with certain customers, to understand their appeal in market before fully rolling out.

After the initial programme launch, retailers must continue to add benefits periodically. New, unexpected perks will keep the program fresh, maintain a competitive edge and continue to balance the value equation in the customer's favour. Amazon Prime is a great example of a programme that continues to innovate with additional benefits for customers.

The frequency with which customers receive benefits is key to continually demonstrating value, and ultimately subscription renewal rates. Industries that have a high frequency of purchase, such as groceries, have a strong advantage in this respect, as they have more interactions and touchpoints where customers benefit from their premium programme.

# The grocery advantage

Given everything we know about premium programmes, it's no coincidence that so many grocery retailers across the globe have started to invest in them. This industry has spent decades getting to know their shoppers and developing functional and emotional loyalty with customers. The high number of visits in-store and online, now driven by increasing numbers of millennial customers, create the perfect conditions for a successful premium programme. Provided the programme is simple to understand, has clear value for customers and offers compelling benefits, premium programmes can be an excellent tool to drive long-term loyalty with customers.

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95% of retailers with traditional loyalty programmes have discussed launching a premium loyalty programme in 2021<sup>2</sup>

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