March 2015

LOYALTY AND THE ASIA PACIFIC SUPERMARKET MARKET

Insights on purchase motivators

TABLE OF CONTENTS

1/ Introduction

The Marketing Store and Intuit set out to understand what drives consumer loyalty in Asia. They conducted a research study across 4 markets, covering 9 different product categories to understand how brands can foster loyalty amongst customers.

Study Objectives

- Consumers buy different brands, but what makes them loyal customers, i.e. what makes them re-purchase the same brands?
- What is the impact of promotions and loyalty programs on loyalty
- To track consumer loyalty in a number of categories in the region.

Scope

Covered 9 categories in 4 countries

Categories:

- Beer
- Supermarkets
- Fast Food
- Male Clothing
- Female Clothing
- Chocolate
- Coffee
- Cars
- Car Fuel

Countries:

- China
- Hong Kong
- Singapore
- Japan

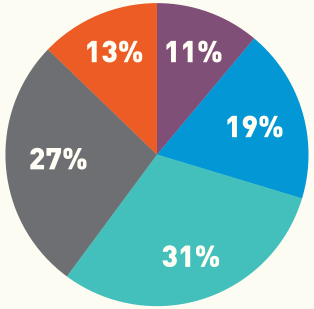
Approach

Online surveys, testing consumers' general purchase preferences, as well as category specific, in up to 3 of the listed categories.

Survey design

- A total of 5,200 consumers were interviewed across the region.
- In each country we interviewed n=1,300 respondents.
- The survey sampling process ensured that respondents had purchased products in a maximum of 3 of the researched categories in order to measure differences in behaviour from category to category.

Age breakdown



11% 18-24
19% 25-30
31% 31-39
27% 40-49
13% 50-55

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What drives purchase decisions in general?

Factors contributing to purchase decision

- Consumers make many trade offs when making buying decisions.
- Some of these happen consciously, others subconsciously.
- Habitual factors may come into play, as well as factors created by channel effects (like promotions, sales, loyalty programmes) can contribute.
- This study tested many of these factors and broadly categorised them in 4 areas:

1 Product

2 Brand

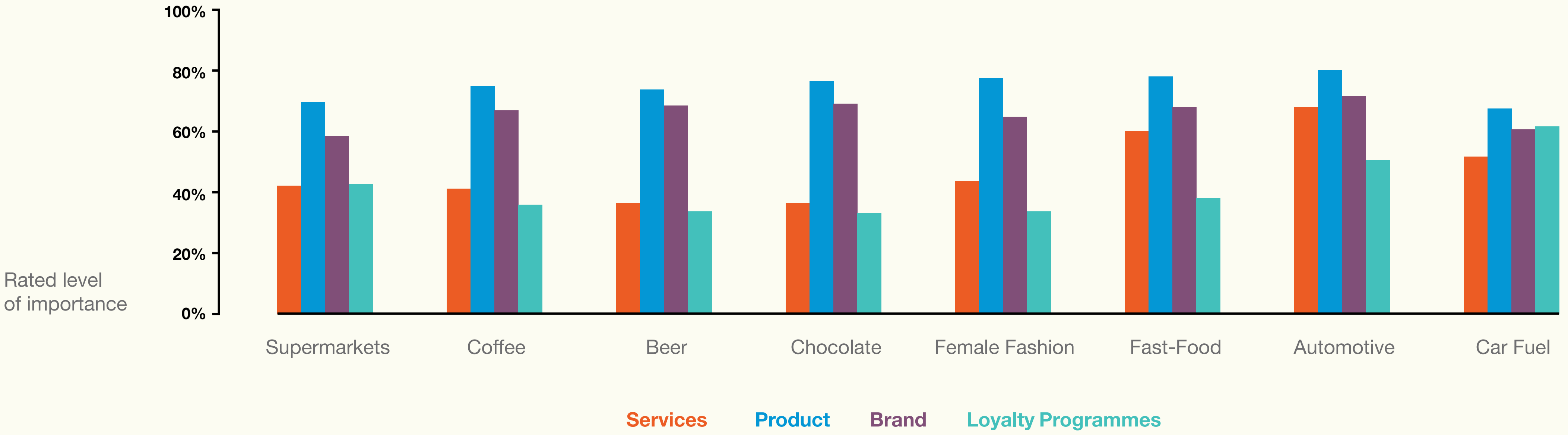
3 Service

4 Promotions / Loyalty?

Product impacts purchase decision most; however the impact of other factors vary across categories

- While product is the most important factor, the brand plays an important second role, and in some categories, like Chocolate, its importance is close to that of the product itself.
- Service and loyalty programmes come third and fourth. In many categories they are equally important.
- High volume categories with fewer providers (e.g. fuel) show much higher importance of loyalty programmes. Here loyalty programmes are as important as the brand.

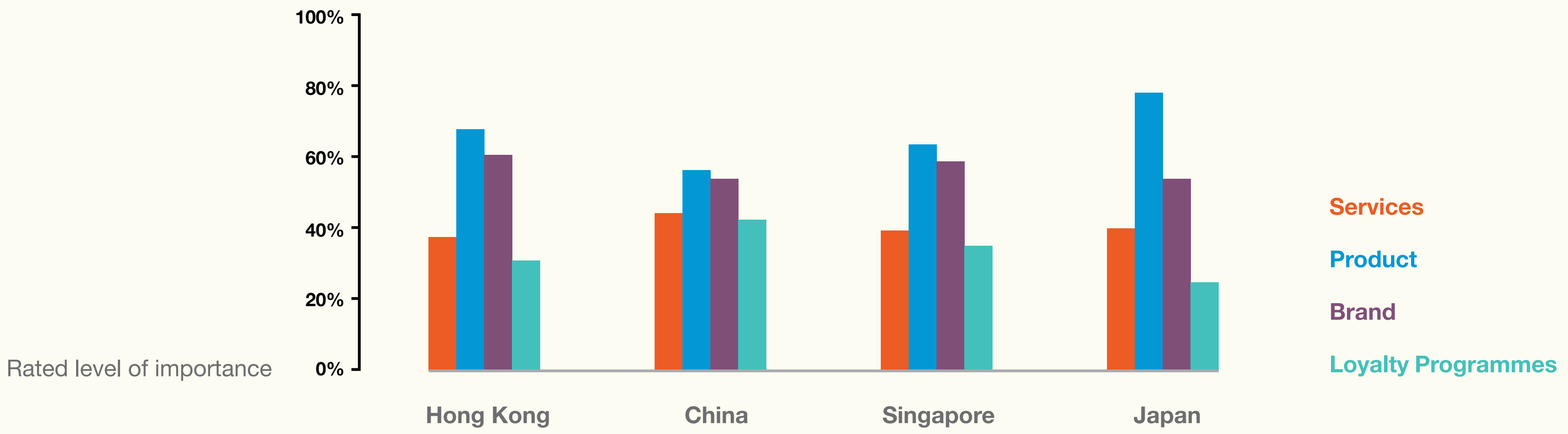
Importance of main factors by category (across all 4 countries)



Across countries there are also differences in the relative importance consumers put on brand, product, loyalty programmes, and service

- Japanese consumers put a lot more importance on the product itself relative to brand and other factors. They seem to take a pragmatic and product centric view when they make purchase decisions.
- Consumers in Hong Kong and Singapore behave similarly; product and brand have equally high importance, while service and loyalty programmes are secondary factors.
- In China we see the most balanced picture: all factors sit closer together, and while product and brand are most important, it seems like the other factors are also equally considered by consumers.

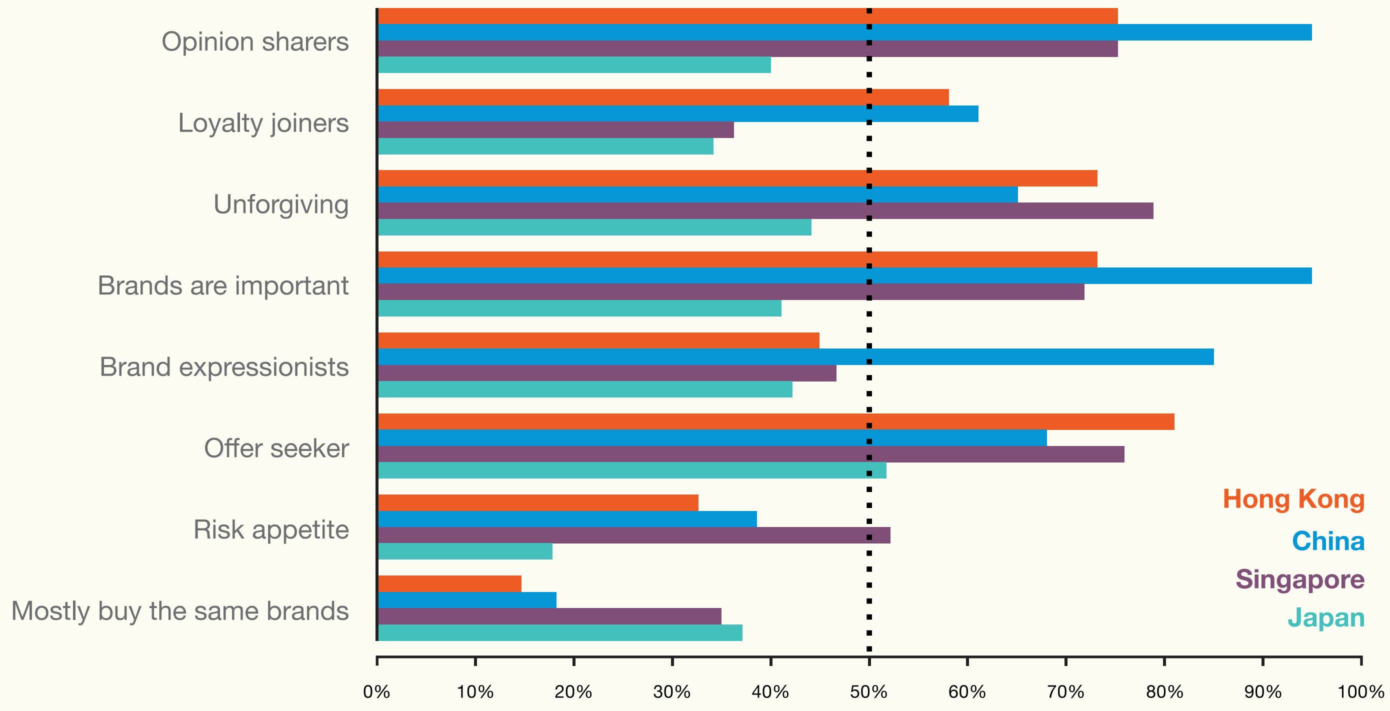
Importance of main factors by market (across all tested categories)



Asia is also diverse on how they regard brands - and it's more than just the 'brand'...

- China consumers love to share, use brands as an expression of themselves, and are keen on loyalty programmes.
- Japanese consumers are far more reserved and risk averse. While they claim brands are not that important to them, they often stick with one brand.
- Hong Kongers and Singaporeans are "unforgiving"; if you disappoint them, they're more likely to defect from your brand than Japanese consumers.
- Consumers from Hong Kong and China are more eager to join loyalty programmes.

Attitudes to brand choice regionally



% indicates percentage of consumers agreeing to statement on the left - see also the blue box

The chart shows the percentage of consumers choosing the left hand description. If the percentage is low this means more consumers chose the opposite.

Unforgiving: after a disappointment they generally don't go back to that brand.

Brand expressionists: like to use brands that say a lot about who they are.

Risk appetite: if low this means consumers don't like to take a lot of risk in trying new products.

Brand loyalty

So what really defines loyalty?

Many definitions exist and are used. Such as:

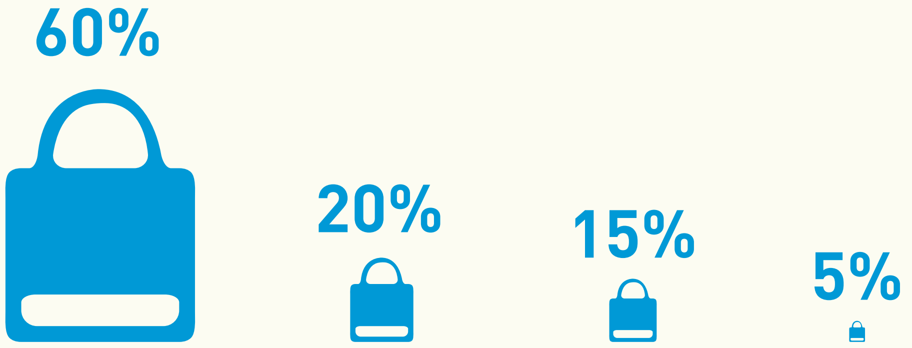
- **Emotional attachment to the brand.**
- **Satisfaction with the brand.**
- **Degree to which you recommend the brand to friends / colleagues.**

This study utilises a straightforward but equitable approach to measuring brand loyalty:

What is the % of all purchase opportunities where a brand is selected?

This can be displayed in a simple % based "share of wallet" number

Share of wallet for each brand.
Total for all consumers must be 100%



Loyalty is best measured as share of wallet

Our point of view: It's better to measure more directly the desired outcome of loyalty programmes and customer engagement initiatives. The consumer truth that has the closest link to business outcomes for brands is: What proportion of a consumer's total spending in a category goes to your brand as opposed to competitors' brands? In other words the share of wallet?

Loyalty Measures

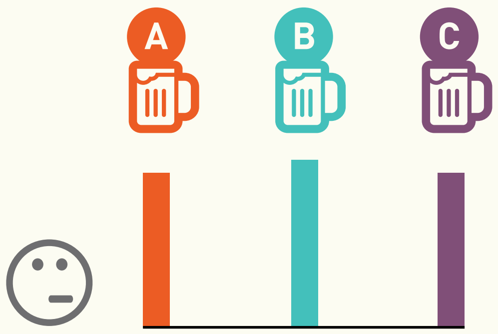
- Satisfaction
- Advocacy
- Recommendation (NPS)
- Retention
- Commitment
- Engagement
- Share of wallet

Why share of wallet? Three main reasons –

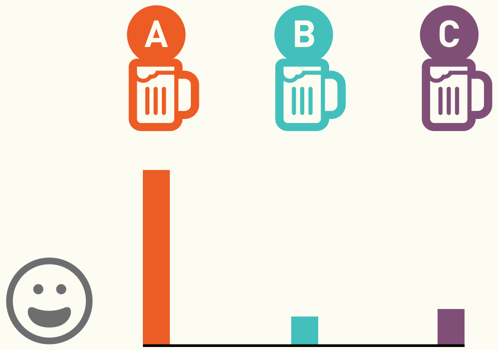
1. **Truly linked to desired business outcome**
   Share of wallet is most clearly linked to business outcome. It directly aggregates to total market share in a category.

2. **Objective and straightforward**
   It is straightforward for a consumer to answer in a survey since it is linked to their actual behaviour. For instance, a consumer might rate 3 out of 4 beer brands equally high on taste, availability, and promotions. It may be hard for them to rate each brand differently.

3. **One number that includes your brands' and competitors' performance**
   Share of wallet is a one number metric that includes both the measured brand's performance as well as its competitors' performance. Share of wallet is expressed as a percentage and thus shows the relative actual performance of a brand. Hypothetically, over time the share of wallet for a brand A could drop if a competitive brand B has stolen market share. For some of the other metrics used in the industry (such as satisfaction), there might have been no difference in the average rating for brands A and B over time, as they are all in one's repertoire. However, if we ask the same consumer how many units of each of the high rated brands they purchased in the past few months, we might see a clear preference for one of the 3 brands. Share of wallet in this case gives a more realistic picture of consumer behaviour.



How satisfied are you with each brand?



How much do you buy of each brand?

There are stark differences in achievable share of wallet: need to target a level relevant for category and market

- Businesses would aim to maximize share of wallet. But the achievable or maximum share of wallet varies by industry - as the chart below demonstrates.
- In the supermarket category we see that the top brands have high shares of wallet - however, there is a rapid drop off after the third brand. This is due to brands in singular countries that achieve high shares - such as Walmart in China and Wellcome and ParknShop in Hong Kong.
- It's interesting to note a category like Car Fuel, where higher wallet shares are attained.

Highest shares of wallet across region

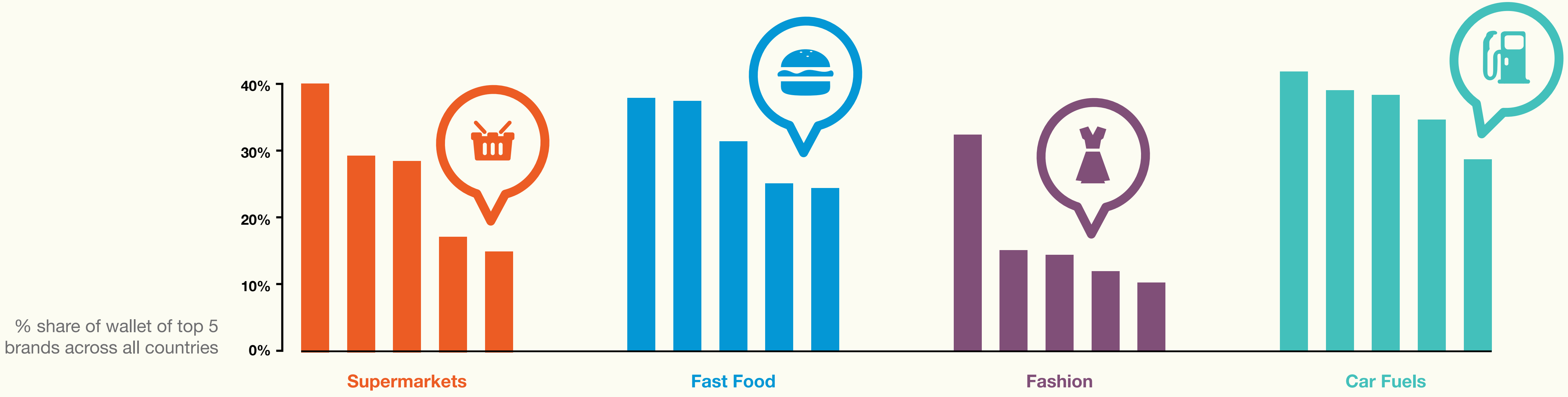


*Chart created by listing all brands in all four markets by descending brand share, then showing the top 5

Consumers segments: High spenders are not always the most loyal ones.

Consumers are individuals and they each behave in their own peculiar ways… Segmentation is the approach marketers take to group consumers that behave in similar fashion, and to market products and structure product offerings to each of these groups.

How do most marketers segment their customer base? One of the often used approaches for loyalty programmes is to group customers into different clusters based on their spending levels. A retailer or supermarket might create three different segments with high, middle and lower spending customers.

Traditionally, marketers would then focus promotions, loyalty programmes, or special offers towards the highest spending customers, believing that these would provide the highest chance of taking up the offer. This is illustrated in ***Chart 2***.

While in theory, this is a good approach, we will demonstrate it is not the right approach if one would like to incentivise customer loyalty.

In our study, we analysed different segments of customers and found that the higher spending clusters actually show lower average shares of wallet (i.e. loyalty) to their main brand - ***Chart 3*** illustrates this.

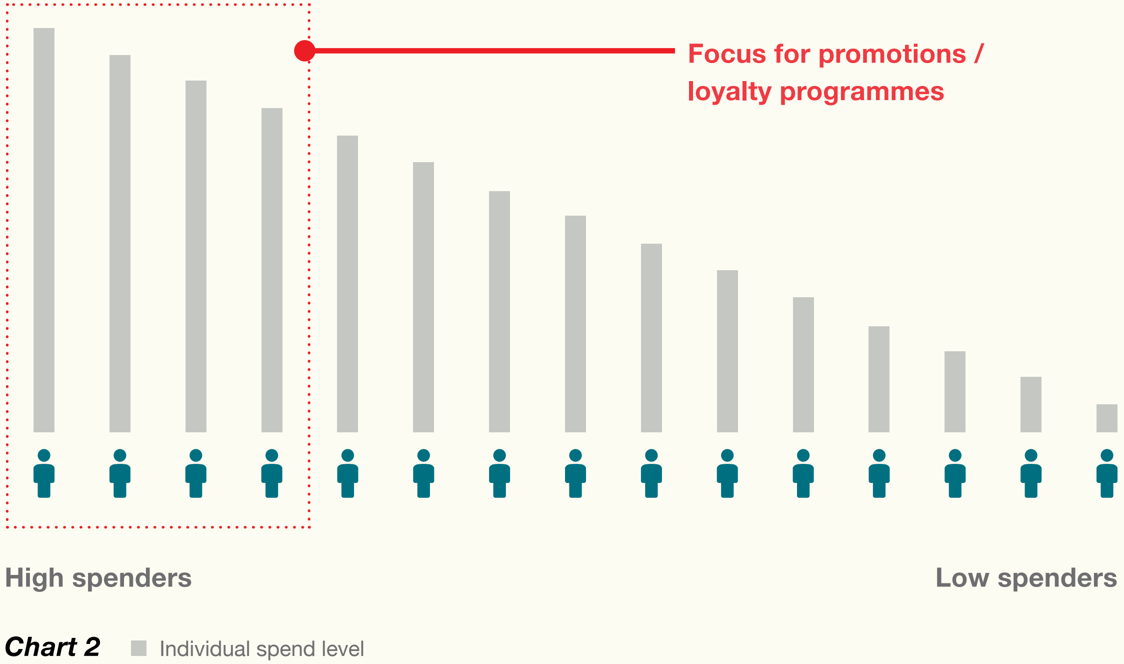


Chart 2

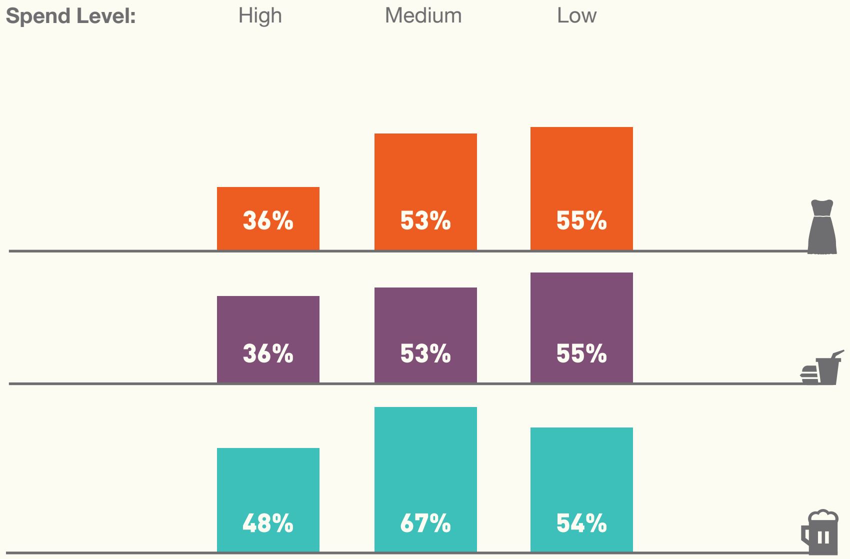


Chart 3 Loyalty displayed as % share of wallet of top brand

Segments of consumers in the Supermarket category - loyalty varies in unexpected ways

- The total database of regional respondents was analysed using multivariate statistics.
- Through cluster analysis three distinct groups of customers, with different attitudes to brands, products and the way they shop for brands, were identified.
- Understanding these segments can assist marketers in further fine-tuning their message to each segment.

Meet the segments:

Practical loyalists

Low volume value seekers

Discerning experimentalists

Broad overview of the segments:

Practical loyalists

- For these consumers, convenience is the top driver for choosing a supermarket.
- Do not care much about brands because they tend to stick to a smaller set of (local) brands and are very cautious in trying new brands.
- The number of supermarkets visited in the last 10 occasions: 1.9
- High frequency visitors.
- Selectively join loyalty programmes.

Unforgiving promotion seekers

- Brand is important and they tend to experiment with brands.
- Value for money is the key driver for choosing supermarket to visit and the key driver for loyalty programmes is saving money.
- The number of different supermarket brands visited in last 10 occasions: 3.5
- Least frequent visitors.
- Unforgiving.
- On the lookout for promotions in-store and rely on word of mouth.

Discerning Experimentalists

- The most discerning group of consumers who put importance in all aspects, especially brand, when choosing supermarket brands.
- Highly experimental, but choose based on quality of products foremost.
- The number of different supermarket brands visited in last 10 occasions: 3.9
- Shop both online and offline, and love sharing opinions about brands.
- Like to receive brand communication.
- Like to join loyalty programmes and with the key driver being fast/priority service.

Broad overview of the segments:

Key insights:

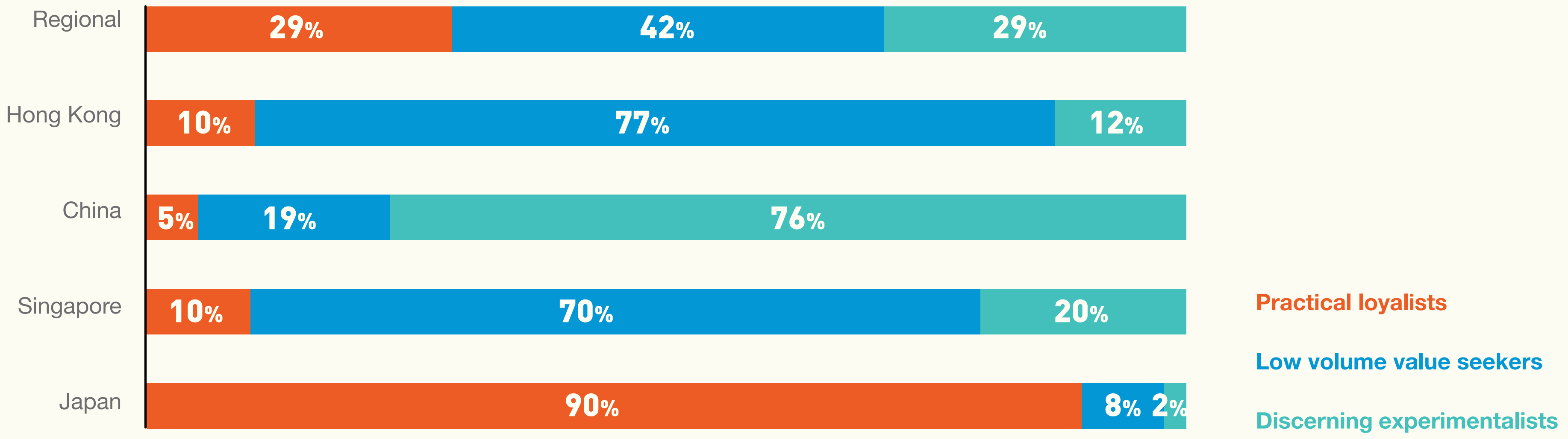
- Interestingly, the more brand conscious consumers tend to experiment more with different brands (higher repertoire). This is because these consumers tend to be more informed (or open to brand communication) and exposed to different touch points and so base their choice on many different aspects.

- The challenge will be to demonstrate tangible benefits to these consumers that would warrant it for them to share more details about themselves in loyalty programmes.

Supermarket shoppers - segments across the region...

- Japan is characterised by a majority of “Practical loyalists” which require a subtle approach from brands as they are less keen to be approached by brand communications.
- China, on the other hand, being an economy which is facing great developments, is dominated by discerning experimentalists – open, but make careful choices. Consistently providing satisfaction is critical.
- Hong Kong and Singapore are similarly dominated by value seekers. Consumers are now looking for value for money, on top of brand communications.

Breakdown of loyalty segments by market



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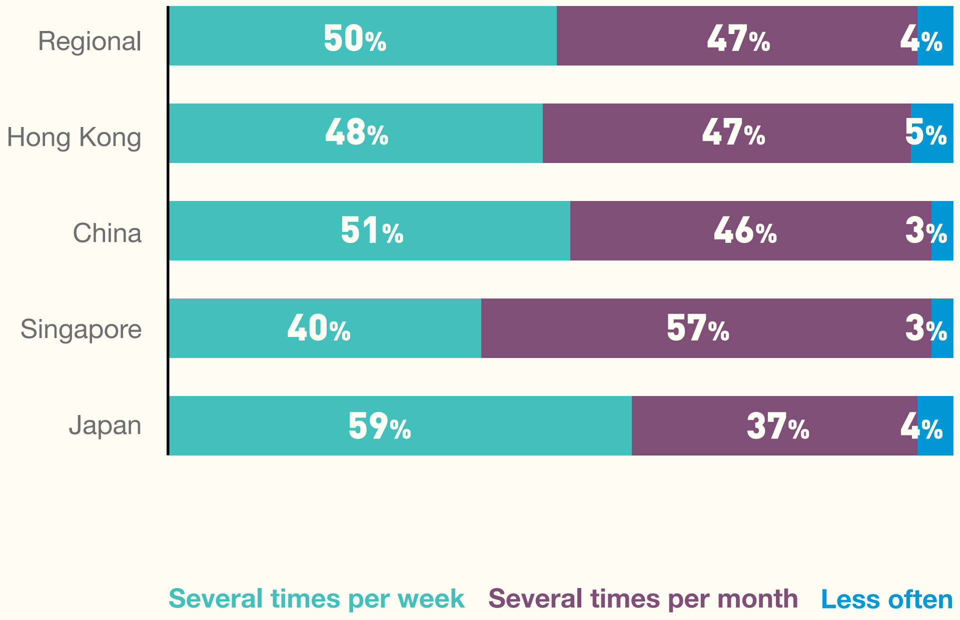
What drives loyalty in the Supermarket category?

The Supermarket category– some purchase dynamics

Overview of supermarket shopping in the region

- **Japanese consumers shop more often than those from other markets, and on average buy less on each trip.**
- **Singapore has the largest number of shoppers who stock up, and hence, has the highest per visit spending.**
- **With the exception of China, Asian consumers value proximity and only allow less than 20 minutes travel time.**

Shopping frequency



Regional numbers

45.6
USD spend per shopping trip

16.9
Travel time (in minutes)

8%
Online purchases

29%
Stock up

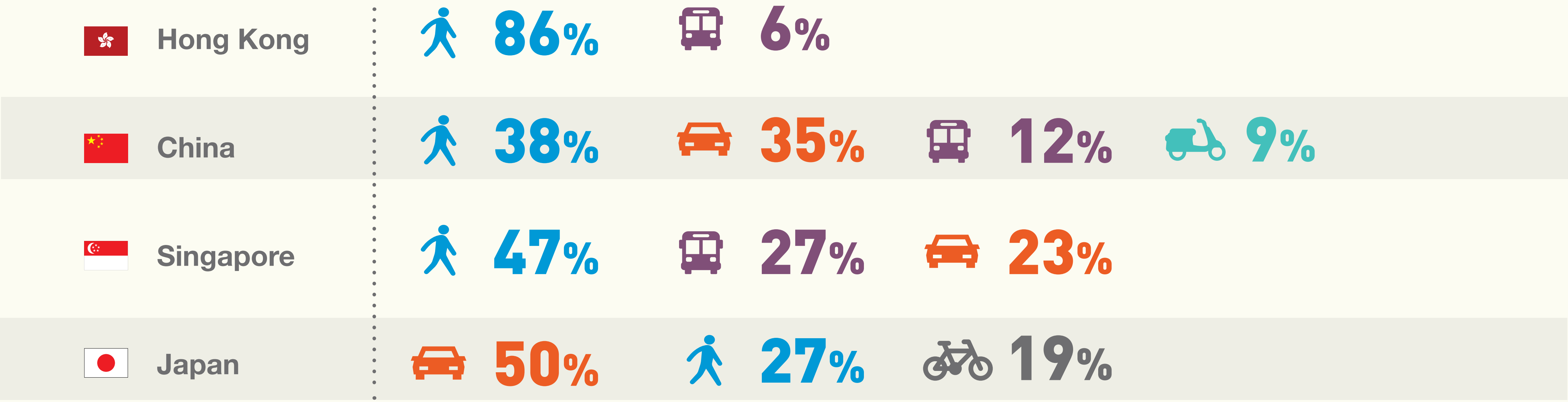
	Total	Hong Kong	China	Singapore	Japan
Average $ spend last shopping trip (USD)	45.6	34.8	54.9	55.5	35.5
Acceptable travel time (In minutes)	16.9	12.1	21.5	17.7	15.4
% of all purchases online	8	5	17	4	5
% Stock up purchasers	29	27	28	35	24

How do you travel to the supermarket? Regional differences

Mode of transportation varies greatly

- Getting to a supermarket in Hong Kong typically involves some walking. This insight is something that supermarkets may focus on; what can they do to make the walk easier / more fun / more engaging?
- In China visits to supermarkets are also quite likely made by car – almost in similar numbers as walking. Free parking obviously becomes important.
- Singapore sees a more varied use of transportation modes.
- And Japan is specific in itself with the majority of shoppers arriving by car.

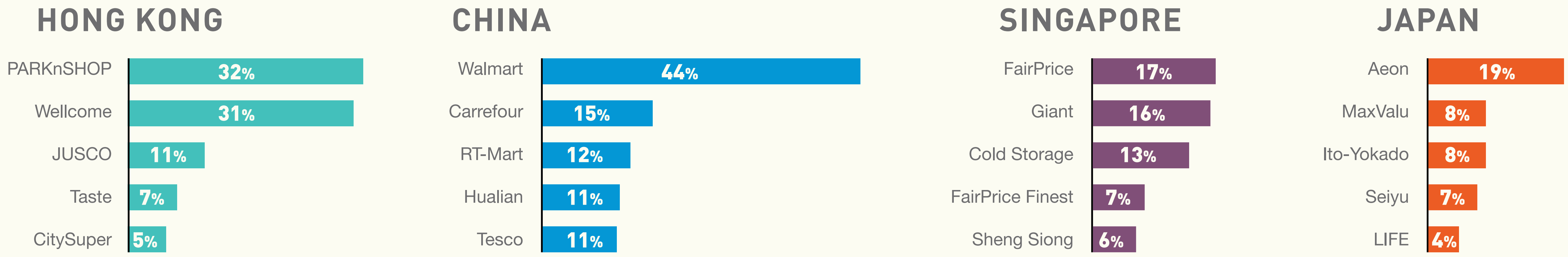
Top modes of transportation for traveling to a supermarket:



Supermarket brands across countries: a diverse market dominated by local players

- China is the only market where international brands prosper, but still hold very small share because of the sheer diversity of the market itself
- Hong Kong and Singapore are dominated by 1or 2 big local players
- Japan is the most diverse with a lot of local players

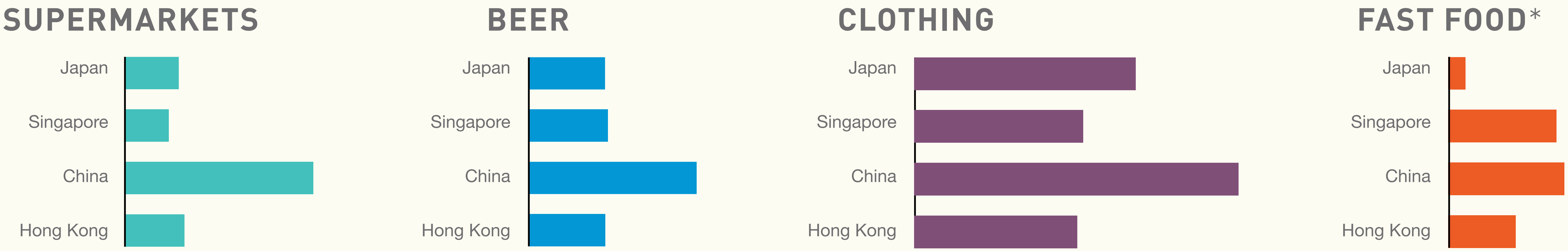
Top 5 supermarket brands by share of wallet



About online purchases: China leads in supermarkets, but this is true in most categories

- As the data below shows, E-Commerce has entered mainstay consumables categories - and China is leading this trend.

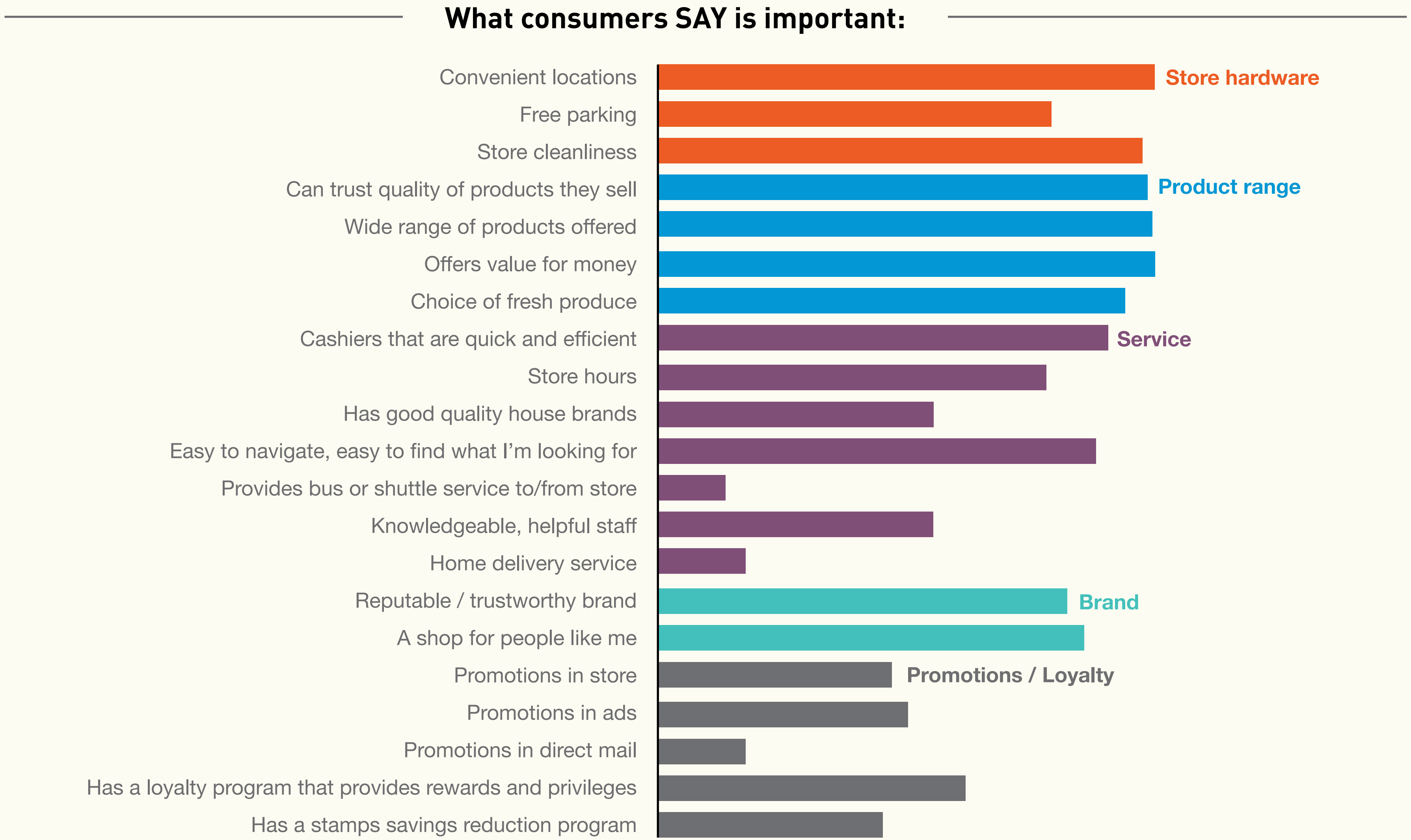
Portion of all purchases done ONLINE



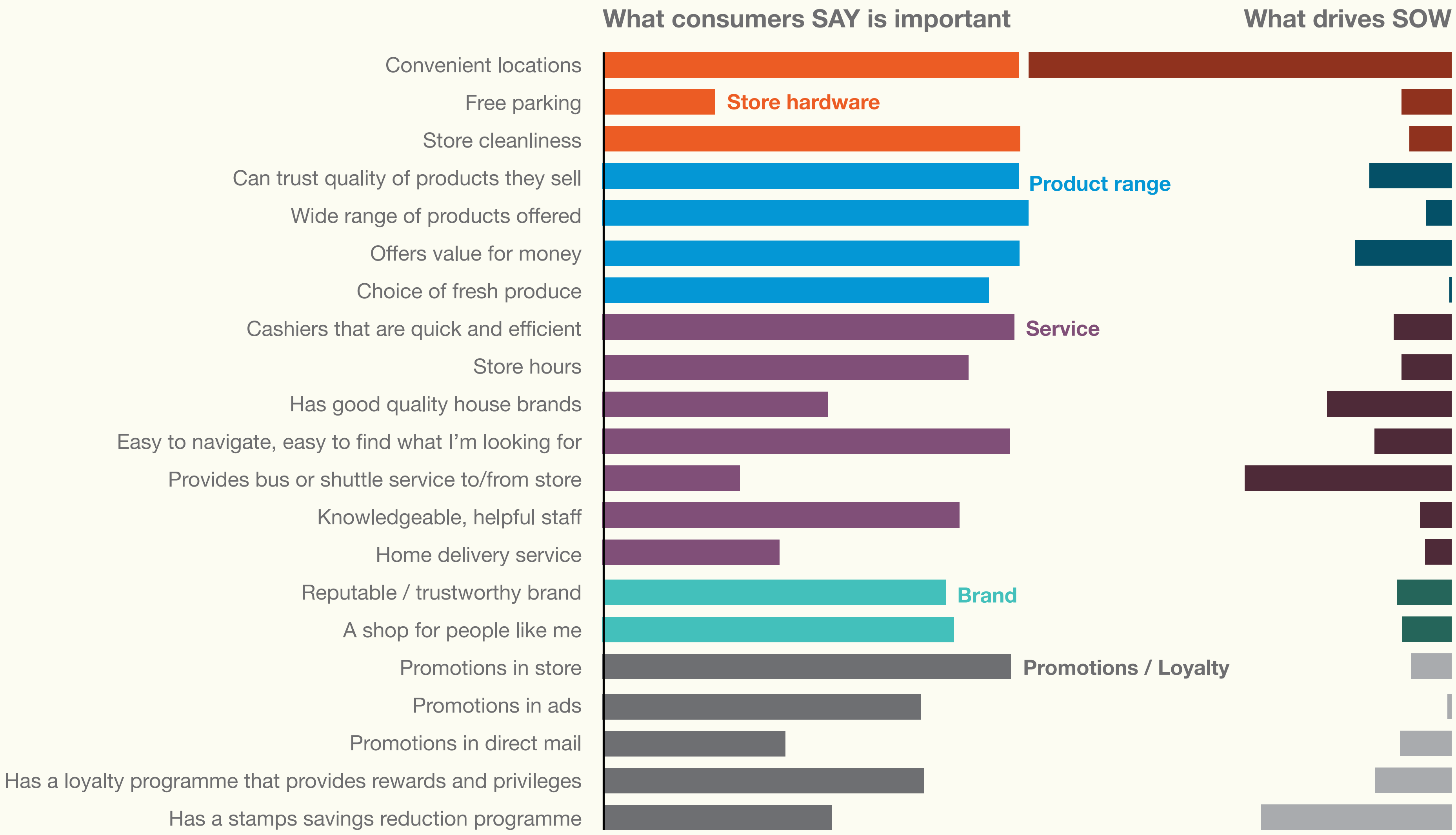
*Incl. telephone ordering

What do people SAY is important in deciding what supermarket to visit?

- **Convenience is key, both in terms of location and ease of navigation.**
- **Product range and brand are equally important, as well as cleanliness and efficiency of cashiers.**
- **But overall it's hard to see the differences in importance, as consumers select many factors and rate them all important. We need to look deeper to understand priorities…**



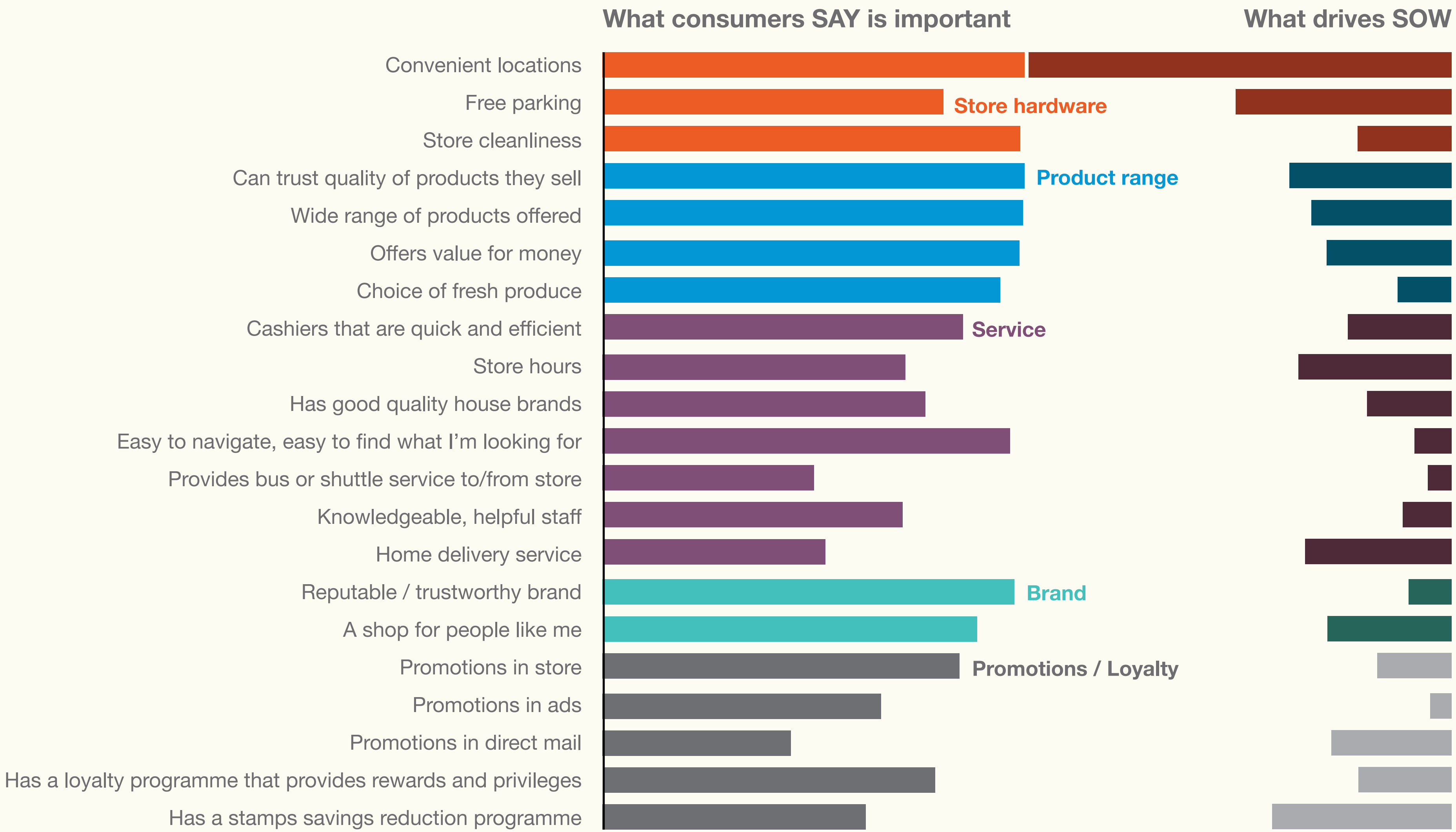
In Hong Kong it's all about location, location, location...



While it is all about location, for Hong Kong this can also extend to "close to a shuttle bus" (which may be provided by someone else than the supermarket. Promotions and especially stamp savings reduction programmes are and important driver.

Chart shows the following: on the left - % of respondents that find each attribute important in deciding what brand to buy. On the right - derived importance for each attribute.

China: still all about location…

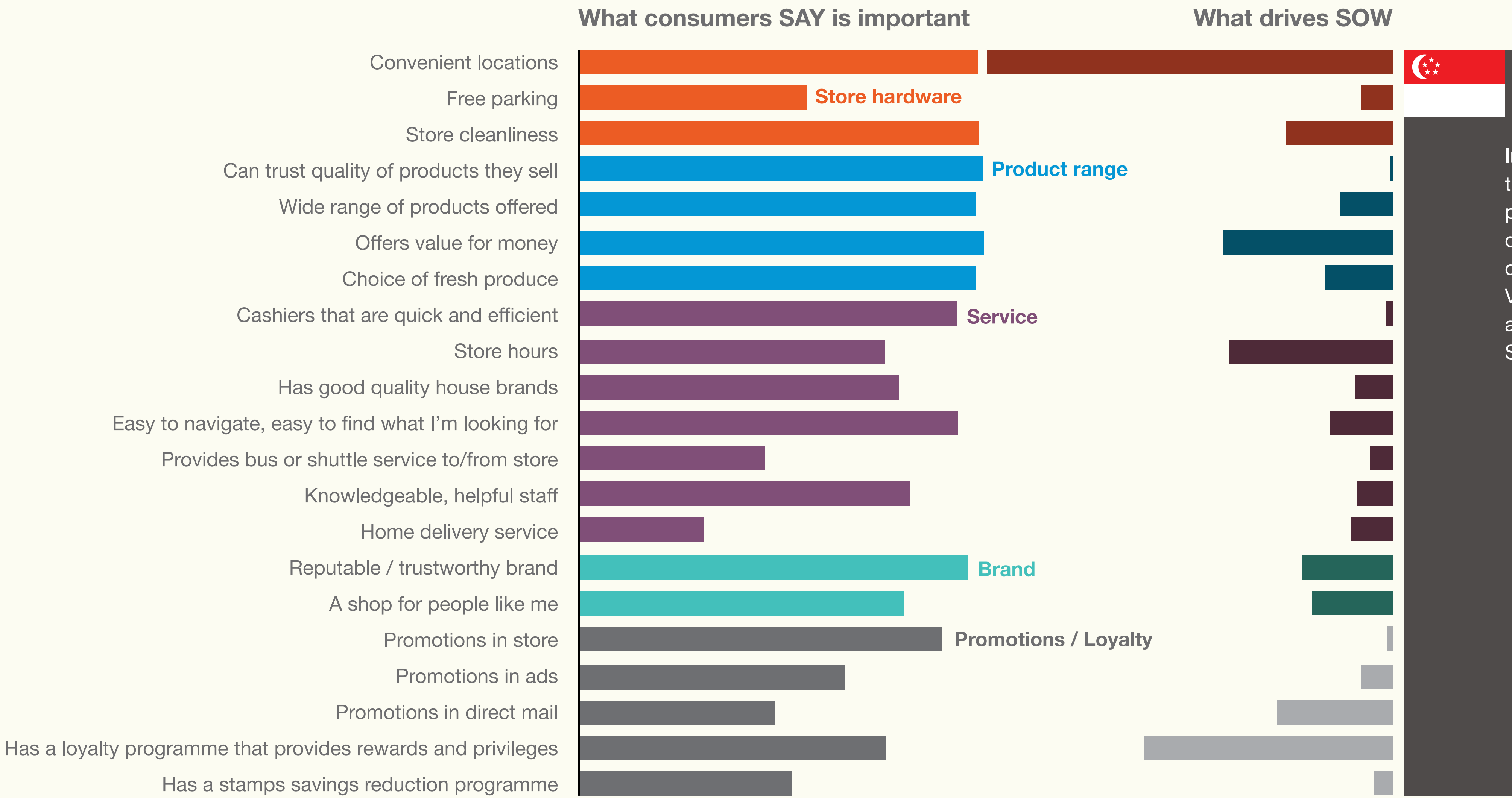


For China, free parking, product quality, store hours and stamps saving program are bigger drivers than the brand.

It is not surprising that product quality is a bigger factor in China, given the regular slew of food safety scandals there…

Chart shows the following: on the left - % of respondents that find each attribute important in deciding what brand to buy. On the right - derived importance for each attribute.

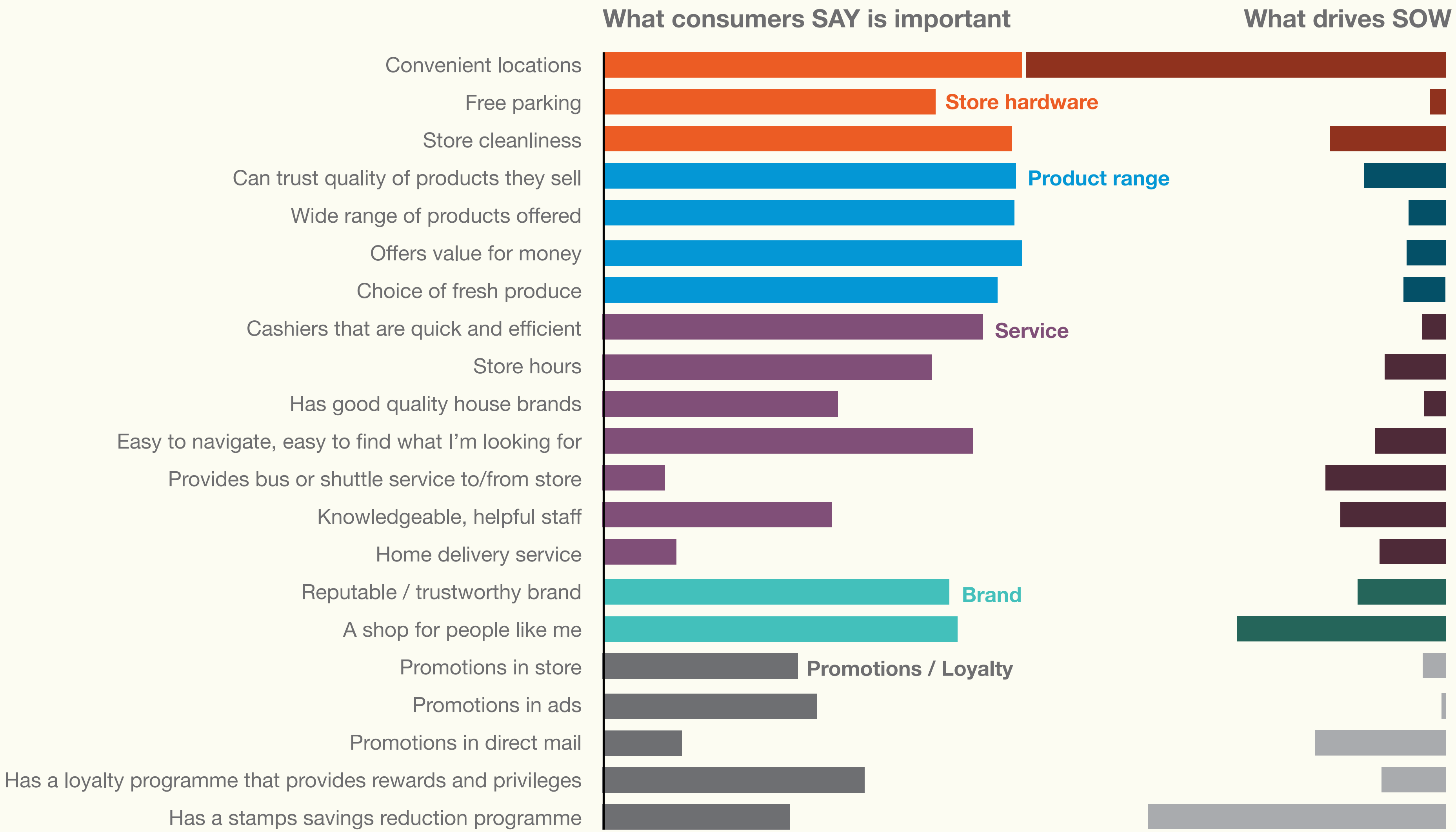
Singapore: all about location but loyalty programmes are second



In Singapore, a loyalty program that provides rewards and privileges is a much bigger driver than consumers claim, compared to other drivers. Value for money and store hours are also very important for Singaporeans.

Chart shows the following: on the left - % of respondents that find each attribute important in deciding what brand to buy. On the right - derived importance for each attribute.

Japan: all about location, as well as stamp savings programmes



For Japan, stamps savings loyalty program is a key driver, next to convenient location.

Identification with the brand impacts brand choice largely, and this sets Japanese consumers apart from other Asians. However, for the most part this identification is still with the smaller local shop!

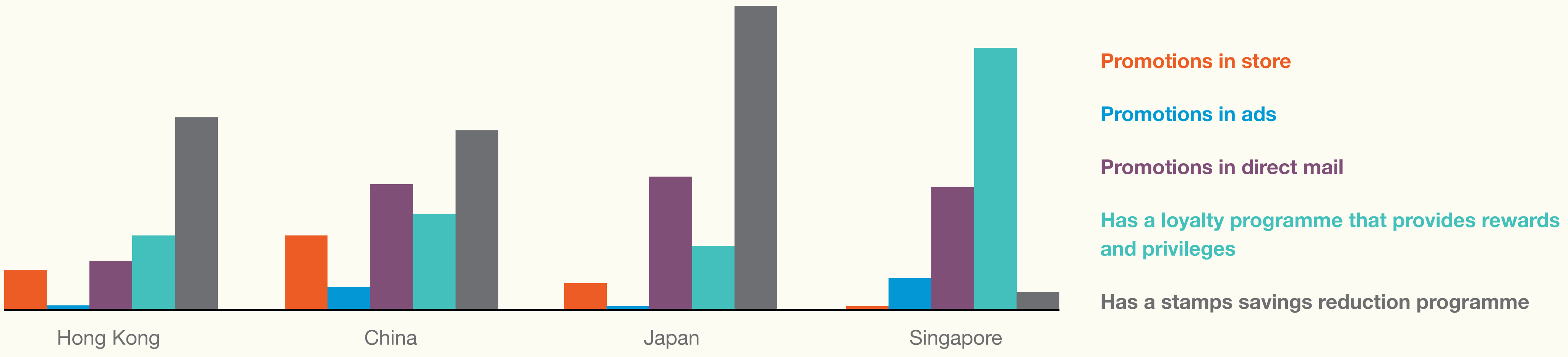
Chart shows the following: on the left - % of respondents that find each attribute important in deciding what brand to buy. On the right - derived importance for each attribute.

4/
What are successful loyalty drivers?

Dissecting promotions / loyalty – many local differences…

- Stamp savings reduction programmes are a very popular type of loyalty programme, preferred by consumers across markets, except in Singapore.
- In Singapore, loyalty programmes that provide rewards and privileges are more preferred.
- Promotions by direct mail are also mentioned across markets.

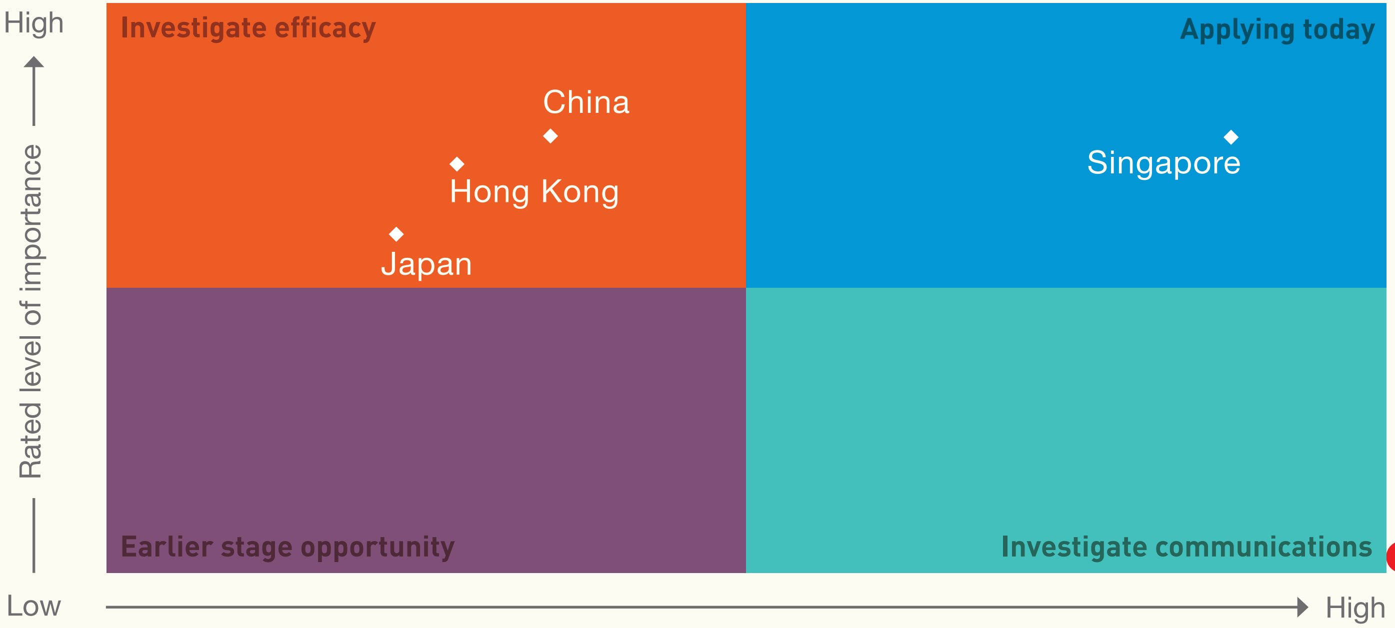
Derived impact of promotion / loyalty regionally



In summary, when we look at the potential for loyalty programmes in the Supermarket category:

- The Supermarket category represents a good opportunity for loyalty programmes. Our study shows that consumers in all countries mention it as a likely influencer of their brand choice.
- In Singapore a number of loyalty programmes are already introduced (e.g. FairPrice / Plus card) while in the other markets, less operators have programmes in place. And for Singapore the loyalty programmes seem to already have a positive impact on brand share.

Degree to which consumers SAY loyalty programmes are important



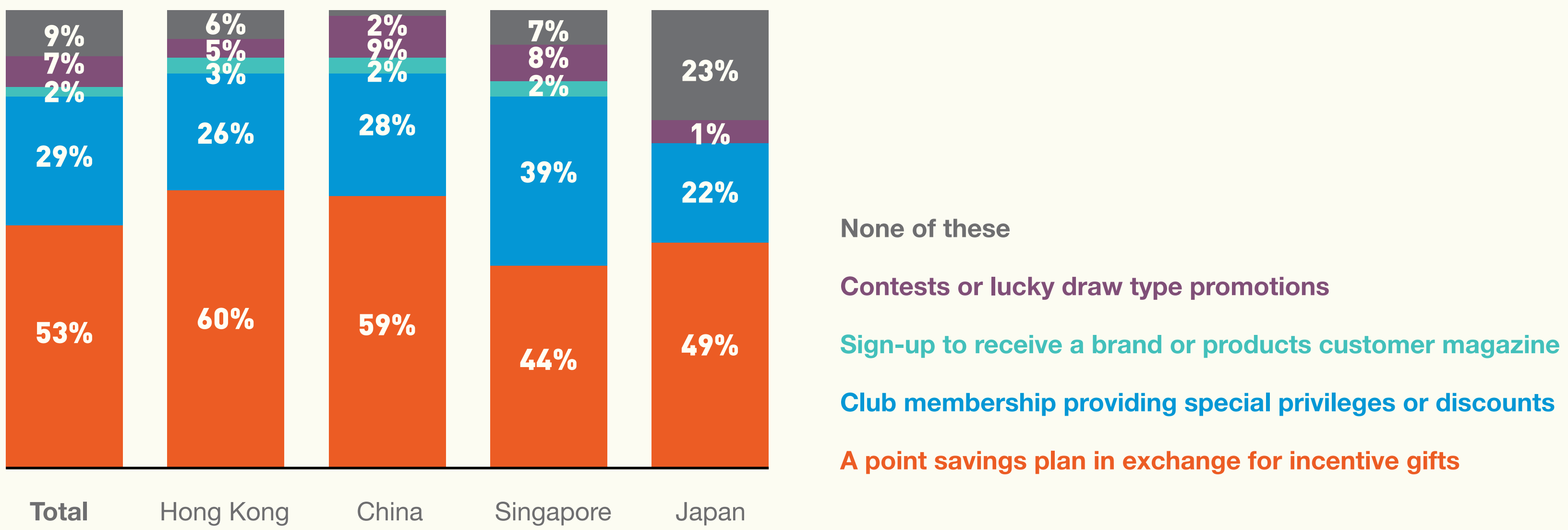
Extent to which Loyalty Programmes are impacting share of wallet TODAY

This chart includes the loyalty programme factors across all countries, to provide a comparison

Majority of consumers prefers a point savings type loyalty plan

- In Singapore, the idea of a "Member's club" is more popular than in other markets.
- In Japan, consumers seem to be looking for something else, outside the current list of loyalty programmes tested.

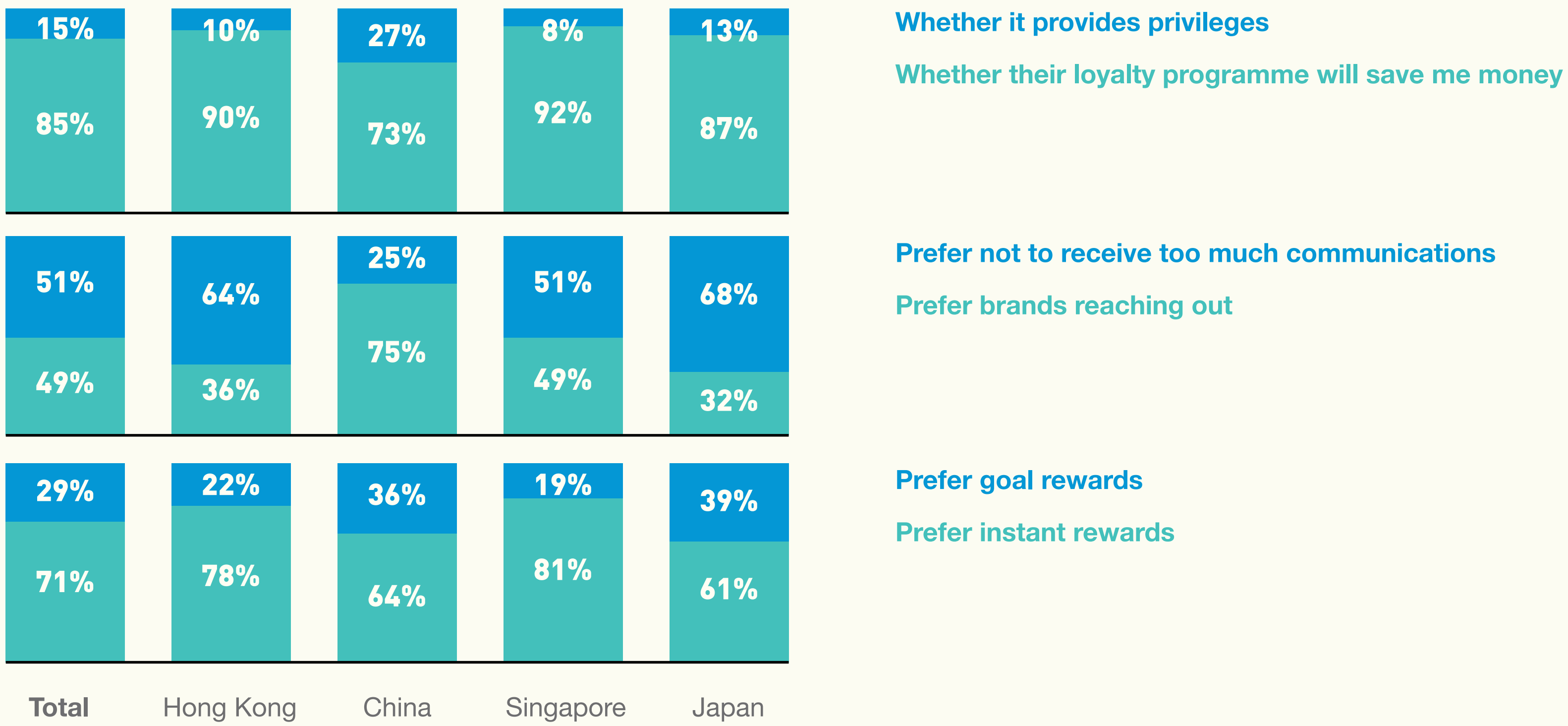
Type of loyalty programme preference



Majority of consumers prefers saving money over receiving privileges

- Chinese consumers, in contrast to the other markets, have much higher interest in privileges and are more open to receiving communications.
- Instant rewards (rebates / discounts) are more popular than goal rewards.

Other loyalty related preferences



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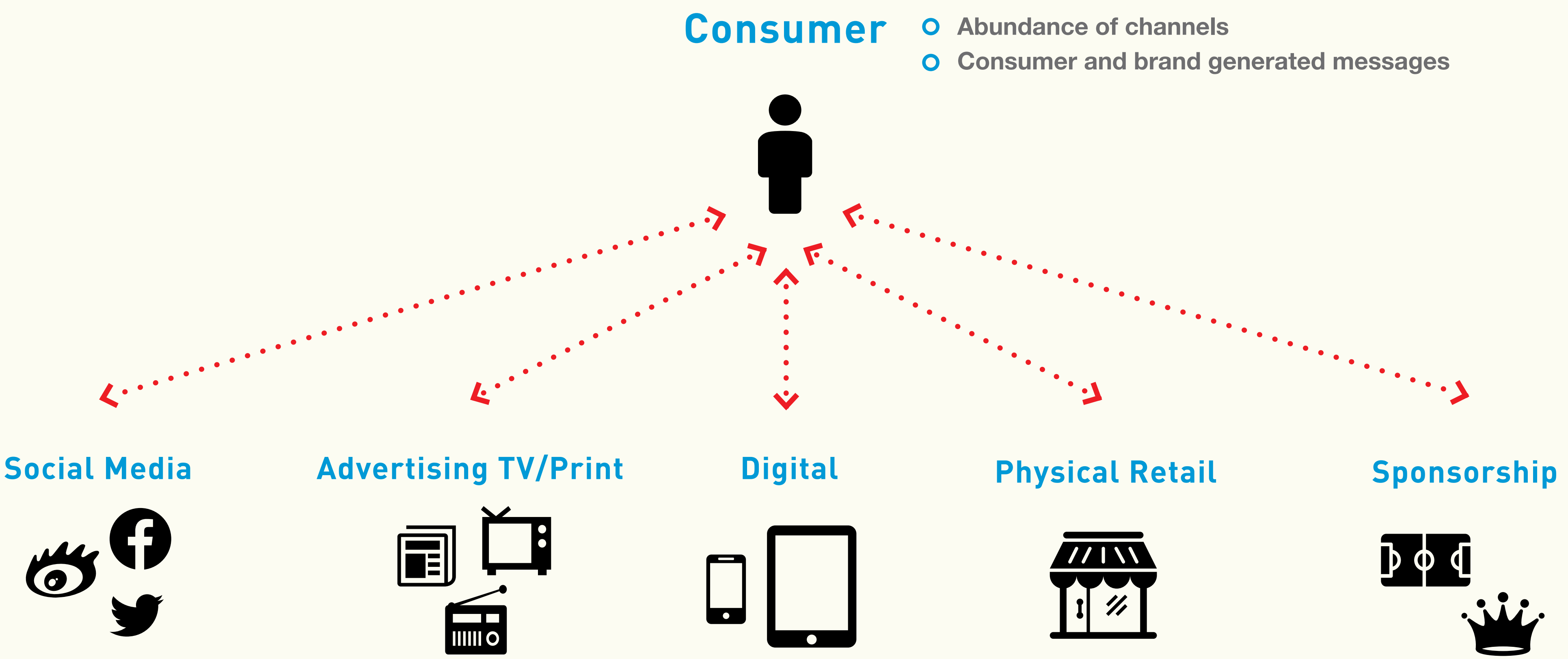
How best to communicate key loyalty drivers?

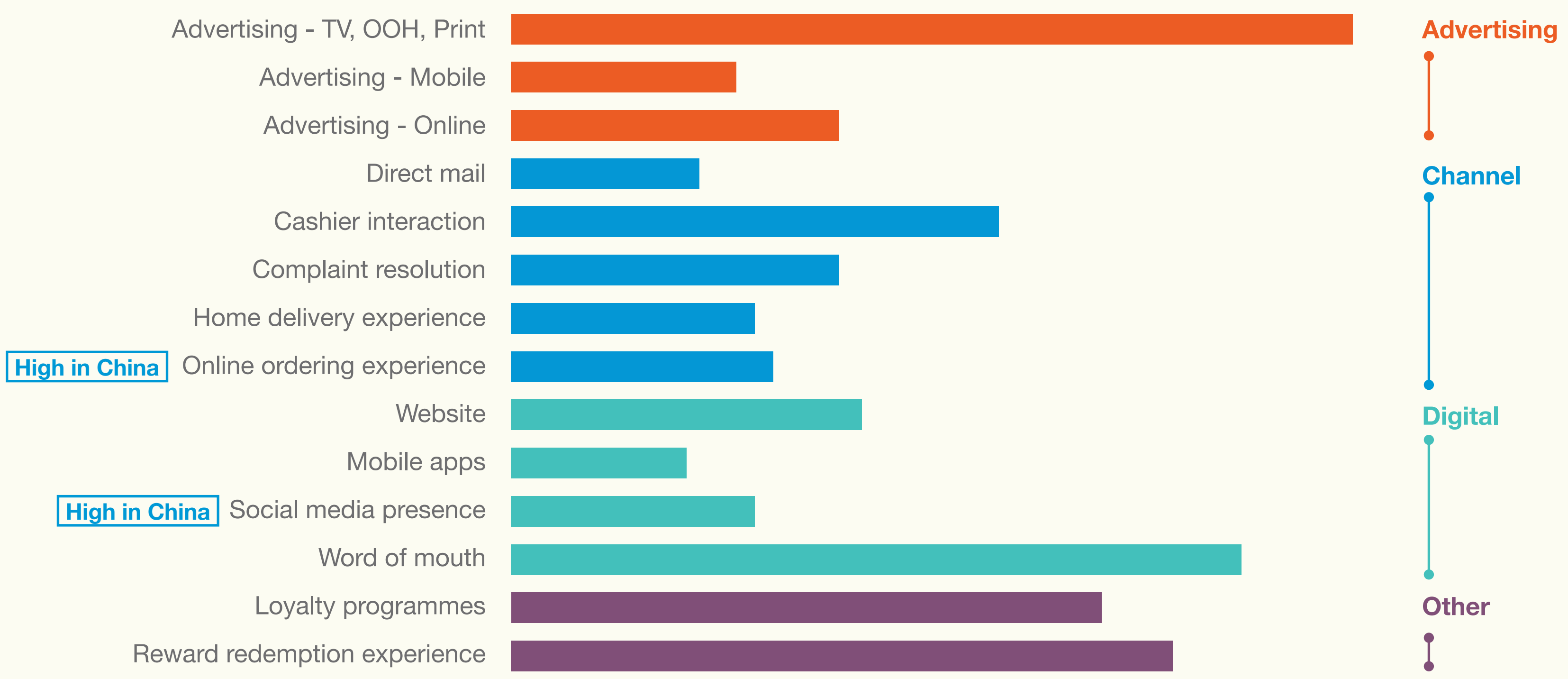
Modern consumer brand touch points



We considered these "touch points" which influence supermarket choice...

- Touch points are different from the decision drivers; they are the avenues through which communication with consumers happen and are therefore easier for brands to control.
- From a consumer's perspective, the most influential touch points are traditional advertising and word of mouth.
- Interestingly in the Supermarket category we see that Loyalty programmes and Reward redemption experience also take key important roles in engagement with shoppers.

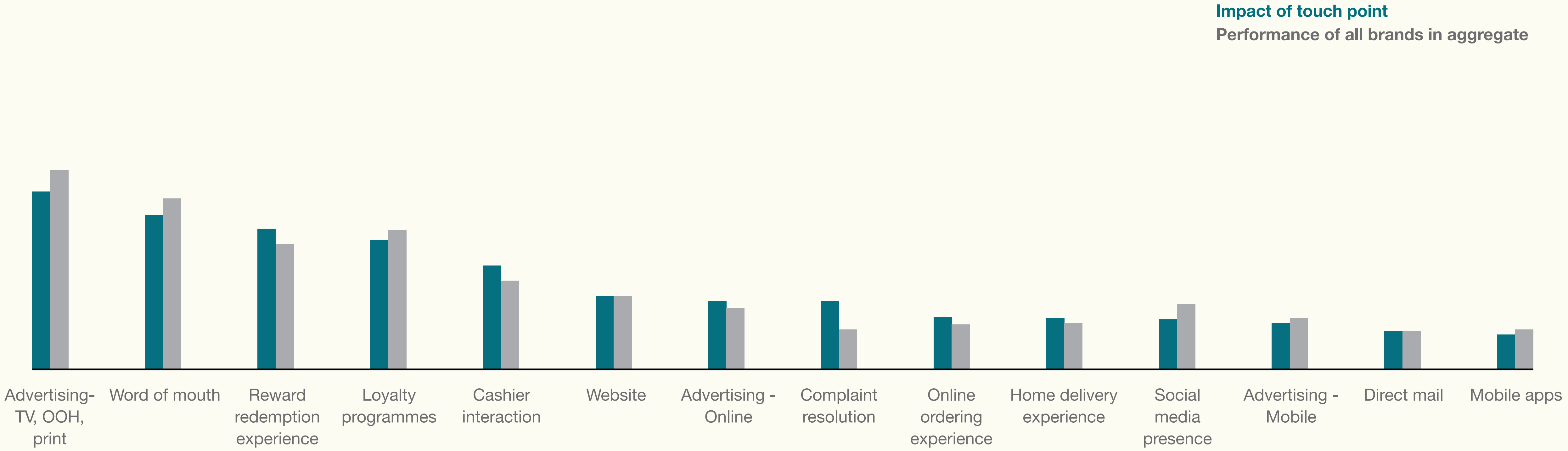
Touch points in supermarket category and stated impact



Overlaying brand performance we can identify over and under-performing touch points…

- In general, Supermarket brands are perceived to be active in traditional advertising, word of mouth, as well as loyalty programs. There is opportunity to channel some advertising budget to improving rewards redemption experience, where consumers would expect to see brands more active.
- Although challenging in terms of addressing, the area of complaint resolution may be another area of opportunity.

Touch points in Supermarket shopping – impact vs all brands - Indexed



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Summary of key insights for the Supermarket category

Theme 1:

The supermarket category has widely varying degrees of brand share (and loyalty) concentration across Asian markets

Top brands and their share of wallet

- Hong Kong and Singapore have one or two big brands dominating share of wallet, while China and Japan are fragmented, with many brands holding small shares.
- Top brands tend to be local ones, except in China where international brands have established themselves and gained ground.

Service and loyalty important factors in brand choice

- Though brand and product are the two big influencers for most consumers, service and loyalty programmes are also important in the supermarket category.These are more important than in the other categories tested (beer, coffee, chocolate, etc) - most likely because consumers already have some familiarity with loyalty programmes in the Supermarkets category.

Consumers seem homogenous within each country

- There are three consumer segments in the region, but looking at specific countries, each is dominated by a single segment: In Hong Kong / Singapore, 77%/70% are value seekers, while in Japan 90% are practical loyalists and China where 76% are discerning experimentalists.
- This is rooted both in culture as well as development stage of each market.

Supermarket category dynamics

- Proximity is key as maximum travel time is less than 20 minutes.
- Japanese visit supermarkets the most frequent and Singaporeans the least. More of the latter stock up on their purchases.
- China is most advanced (as in other categories) in terms of purchasing online.

Key insights for the Supermarket category

Theme 2:

Convenience is consistently the key driver, while some other factors are more important than consumers realise.

Location, location, location…

- Convenience, to a large extent, drives brand share. Singapore / Hong Kong are dominated by brands with the largest number of branches across the country. In Japan / China local shops are used as they are close by.
- However, other factors including loyalty programmes are important as well. The Supermarket category seems one of the categories most open to loyalty programmes based on our findings.

Hong Kong: stamp saving and good house brands

- Stamp saving programmes have a strong impact on loyalty, and many supermarkets in Hong Kong run stamp saving plans.
- Having good house brands also has quite a strong impact on brand choice.

China: free parking, stamps, store hours

- Since many people use a private car or motorcycle to reach the supermarket, availability of free parking impacts their brand choice.
- Stamp saving and store hours also matter to Chinese consumers.

Singapore: rewards programme, value for money

- Singaporeans are looking for value for money, as well as convenience.
- They are also more advanced than other markets, in that they have more evolved loyalty programmes in place. Consumers look for both rewards and benefits.

Japan: brand identification, stamp saving

- Besides location, stamp saving is the single most important promotional factor for Japanese consumers - similar to Hong Kong and China.
- However, identification with a brand is more important than in other categories, and for the most part, Japanesechoose smaller local shops because of this.

Key insights for the Supermarket category

Theme 3:

Supermarkets can prioritise stamps saving, followed by rewards programmes

- **Stamp savings preferred in most markets**
  - This is the most impactful type of loyalty programme across all markets except in Singapore. It appears to be a good candidate for improved market communications as not many consumers mention stamp savings outrightly - a hidden opportunity.
- **Rewards programme – a secondary initiative to investigate**
  - While in most markets it is mentioned by many consumers, it is only proven to currently have impact on brand share in Singapore. This is probably due to Singapore already having a loyalty programme in place (Plus card) while in other markets not all players have member rewards / benefits in place.
- **In-store promotions cannot be ignored**
  - Promotions in-store are claimed to be important, and therefore also need to be present in order for brands to be considered.
- **Marcom: spend more on loyalty and rewards**
  - In most markets, top supermarkets are over-performing on traditional media and under performing on loyalty/rewards touch points. There is room for re-channelling resources to loyalty/rewards in order to improve experience.
  - There is also an indication of issues around complaint handling for some brands, which is important to investigate.

Thank You

For further information about the report please contact

Martin Chan
Director, Customer Engagement

2503, 25/F, The Centrium, 60 Wyndham Street, Central, Hong Kong | Martin.chan@tmsw.com | +852 3468 8922