

March 2015

CONSUMER LOYALTY

AN

ASIA PACIFIC

PERSPECTIVE



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1/ Introduction



Customer loyalty: many brands pursue it, yet not many brands truly succeed in achieving it. What is it that makes consumers loyal to a brand and what does loyalty really mean?

Are consumers who have only one option for an electricity provider loyal to that provider? It all depends on the definition of loyalty one uses... and there are many.

At The Marketing Store, we believe that driving loyalty must be clearly linked to business results and ultimately that means getting customers to give you a higher share of their spend or making consumers make repeat purchases of your brand.

A related point is the fact that it can cost up to ten times as much to acquire a new customer as it does to retain an existing one, a saying that is perhaps a cliché in marketing. Whether the particular figure is correct or not, the general idea is. Therefore higher customer loyalty ultimately results not only in higher revenues, but also higher profit margins.

It is no wonder that airlines, hotels and other service oriented categories have extensive loyalty programmes in place. They reward their most valuable customers with exclusive benefits, discounts and promotions in tiered levels meant to tie

the customer into their brand more tightly to grow the customer lifetime value. Many of these programmes have proven to be enormously successful.

At the other end of the spectrum, some loyalty programmes simply provide a card to members that give them access to flat-rate discounts. Supermarkets are a good example of this. Obviously, in these situations there is less of an incentive for customers to give more of their business to the brand in question. That's especially true when other competitors have similar discount programmes in place - they all end up as "me too" programmes in the eyes of consumers.

So what is the best way to implement loyalty programmes as part of the overall marketing and client engagement strategy?

This has been the subject of numerous research studies and business case studies. There are loyalty studies at a global level, and there are studies focused on multiple product categories. Other studies look at loyalty in one particular industry, i.e. in the hotel or air travel industry.

At The Marketing Store we felt something was lacking. We wanted to understand loyalty from the perspective of a number of mass-consumption and retail categories - fashion, consumables, fast-food restaurants, and others. We wanted to understand what drives loyalty in these categories in a number

of markets in Asia Pacific, and more importantly, we wanted the study to be practical and actionable.

What really drives loyalty and what do those drivers look like from an Asian perspective? What are the differences in different product categories?

We commissioned Intuit Research - an independent market research firm - to conduct a study on customer loyalty. Over 5,000 consumers in Japan, China, Hong Kong, and Singapore were interviewed covering nine different product categories ranging from supermarkets to car fuel.

Our findings were consistent with conventional wisdom in some areas, but also surprising in many ways. Our study into customer loyalty amongst Asian consumers gives important new insights for marketers, brand managers and business owners in the region. It provides a point of view, supported by robust research data, that can help marketers shape their customer loyalty strategies.

The findings of this study are available in the form of this overall report, as well as category specific versions. Please get in touch with us if you are interested and discussing any aspect of this report.

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2/ Executive Summary



Loyalty is best measured by “share of wallet”

There are many different measures of customer loyalty, but we felt that, from a business perspective, the measure of loyalty must be linked to business outcomes. We believe that fundamentally, loyalty should be about how often consumers buy your brand as opposed to competitive brands. In other words, it is the “share of wallet,” defined by us here as the proportion of a customer’s total spending in your category that your brand is getting.

High spenders are not always the most loyal ones

One of the most revealing findings from our study is that higher spending customers are often less loyal to brands than lower spending customers. The high spenders are quick to enrol themselves in loyalty programmes but actually exhibit a more promiscuous behaviour as they cycle through a larger set of brands, giving each brand a lower share of wallet. This is particularly interesting since many loyalty programmes reward customers on the basis of amounts spent alone, potentially neglecting those customers who are actually more loyal to their brand.

Customer segmentation aids loyalty marketing

Spending levels are not the only thing that makes customers different. In our study we show that online engagement, the level to which consumers use brands as expression of themselves, and their openness to receive communications from brand differ across segments. Brands can utilise this to their advantage in design of promotions and loyalty programmes.

Brand selection drivers: what consumers say is different than what they do

When we asked consumers what drives their brand choice they mentioned many aspects, and rated many of them as being important.

However when we looked at what really drives brand decisions, we found there are far less aspects that mattered, and the importance of each aspect varied by category and by country.

As one of the drivers of choice loyalty programmes and not programs throughout the document mostly have a higher impact than what would be expected based on consumer perception, making them an important driver of share of wallet.

Use touch points that consumers prefer, and dare to be different

We found a gap between how consumers prefer to be engaged and how brands actually engage with them. These gaps present opportunities for an improved brand communications mix. On the other hand, being different in communications (i.e. using lower influence touchpoints in your mix) can be a good way to stand out.

Examples we've found in the survey include: brands that are less active in traditional advertising but more active in retail presence & promotions, brands active in word of mouth (online or offline), and brands leveraging superior in-store customer services as differentiating touchpoints.

Put customers in control of the communications they receive from you

Brands should have mechanisms in place that let customers choose the frequency and the kind of communications they receive. Many consumers – including loyal ones – enjoy receiving communications. There is also a large group that prefers not to receive too many communications. Over communication is potentially driving away customers who are actually open to receiving some communications from the brand. It would be impossible to find a frequency that is optimal for all customers; the solution is to give customers control over how much communication they want from your brand.

Instant gratification should be an important part of any loyalty or promotion, but goal rewards also have a role to play, particularly in China and Japan

The majority of consumers prefer to receive instant rewards over goal rewards which would suggest that promotions and loyalty programmes should include instant incentives to satisfy customer wants.

However, there is still a sizeable group of consumers that prefers goal rewards. This group is even larger in China and Japan, where saving towards a greater incentive or end-goal is more popular than the more short term focused Hong Kong and Singapore consumers.

The key message for brands is that they need to devise robust loyalty programmes that address the needs of the different customer segments it serves.

Proof point: Among coffee consumers in China and Japan, about 40% prefer goal rewards. This contrasts Hong Kong and Singapore where only 15 to 20% prefer goal rewards. Consumers in China and Japan are prepared to save longer for rewards, for up to 6 months according to our study findings.

3/ Key Findings and our Point of View

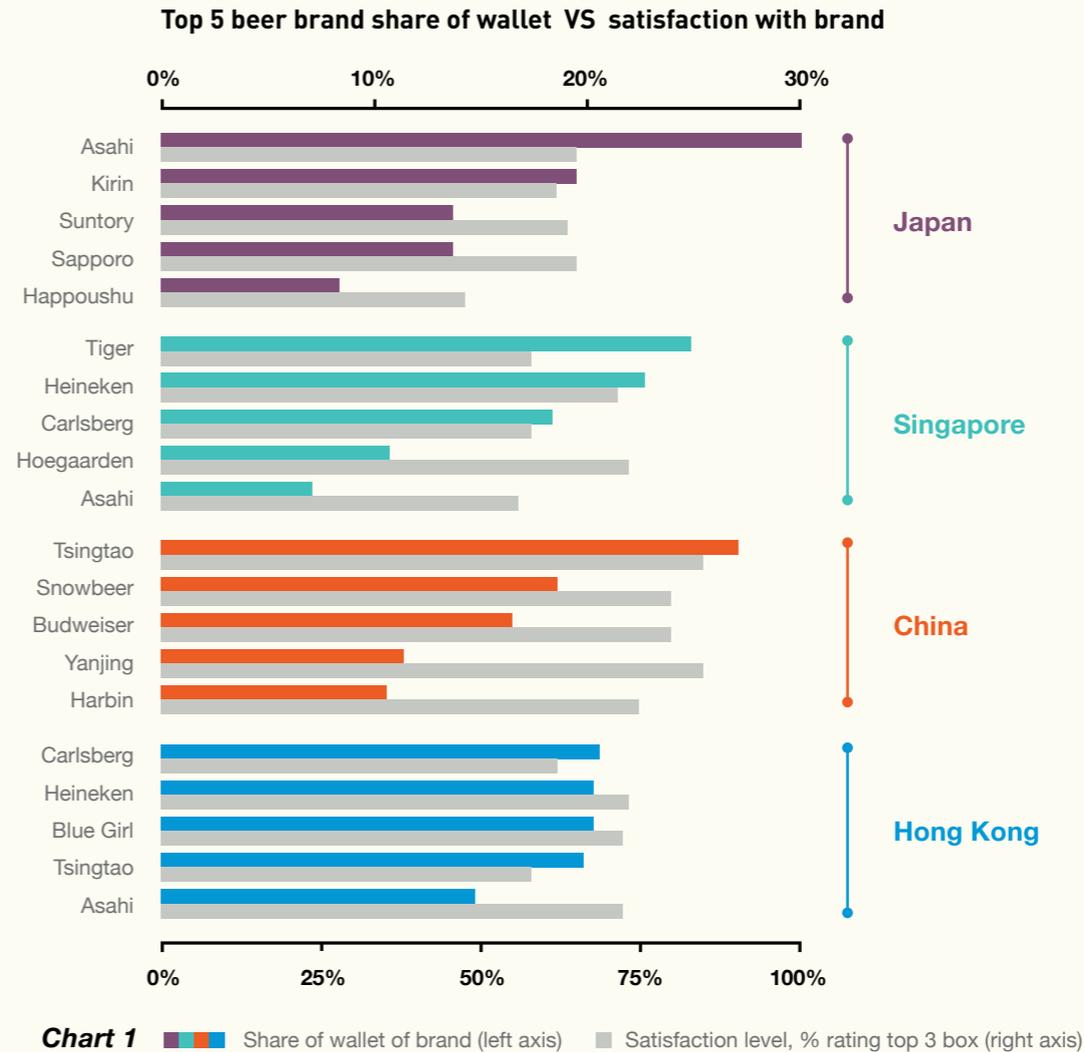


Loyalty is best measured as share of wallet

There are many different ways that companies and consultants use to measure customer loyalty. Some organisations measure customer satisfaction as they believe this correlates with customer loyalty or amount of purchases. Others measure brand advocacy, perceived advantage, or likelihood to re-purchase a brand. There are also others that look at emotional measures such as psychological commitment of a consumer towards a brand.

While these measures highlight important aspects of the brand-consumer interaction and they are good metrics to track improvements in customer interactions, the main issue is that linkage to business value (i.e. market share) of the various measures that are used is not always clear. There may be some correlation, but the measures are indirect; i.e. they aim to explain brand choice by looking at how satisfied, engaged, or to what degree a consumer recommends a brand. Our point of view is that it's best to measure the direct desired outcome behaviour of loyalty, rather than an indirect measure which may or not correlate with that outcome.

For instance; our data shows that correlation between satisfaction and share of wallet is very low. **Chart 1** demonstrates this for the beer category. It illustrates how customer satisfaction and the share of wallet don't behave in a similar pattern. Brands that reach the highest satisfaction levels are not in fact reaching the highest shares and we can see the reverse is also true.



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

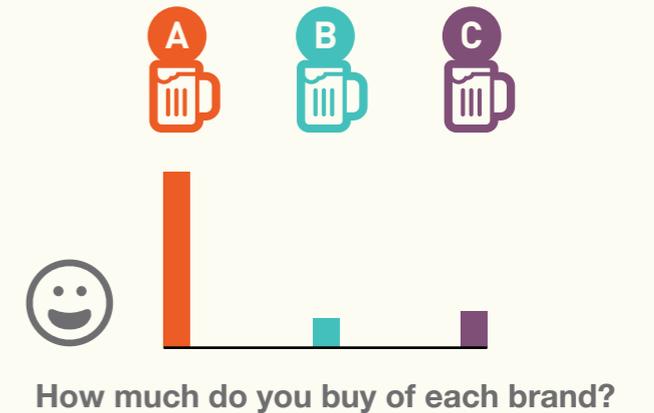
- Satisfaction
- Advocacy
- Recommendation (NPS)
- Retention
- Commitment
- Engagement

○ **Share of wallet**



Why share of wallet? Three main reasons –

- 1 Truly linked to desired business outcome**
Firstly and most importantly, as mentioned, the share of wallet is most clearly linked to business outcome. It directly aggregates to total market share in a category.
- 2 Objective and straightforward**
Secondly, 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**
Thirdly, 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 these cases gives a more realistic picture of consumer behaviour.



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.

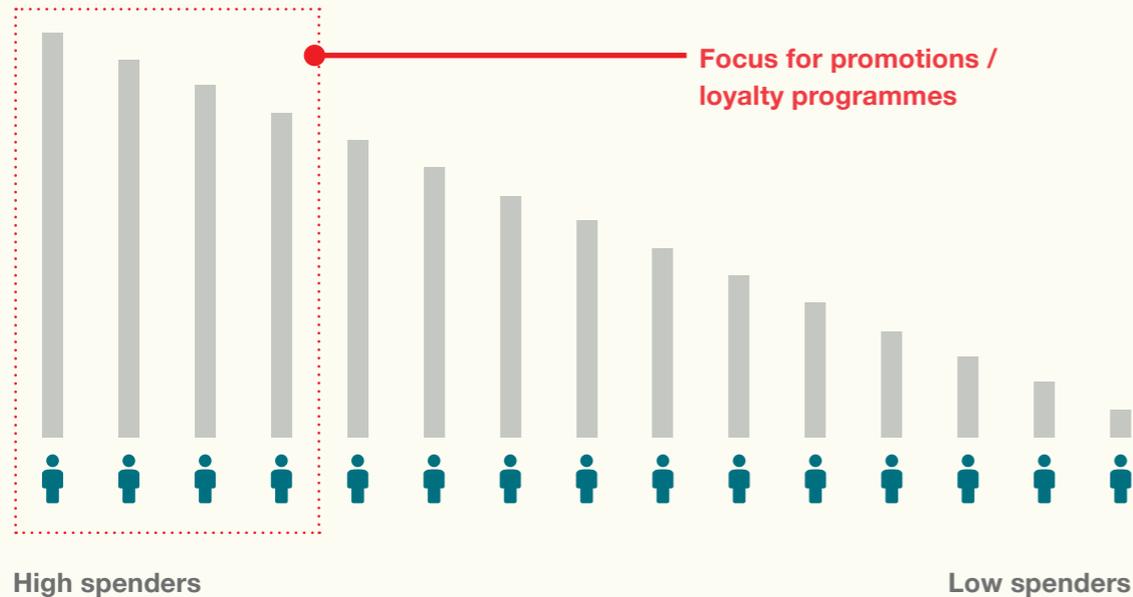


Chart 2 ■ Individual spend level

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.

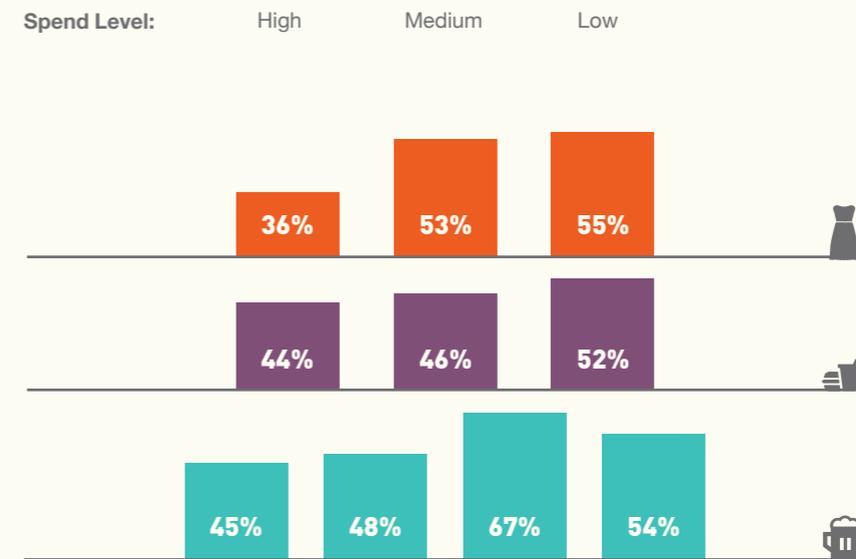


Chart 3 Loyalty displayed as % share of wallet of top brand

High spenders are not always the most loyal ones

Distribution of loyalty in a given category could look like the one in **Chart 4**.

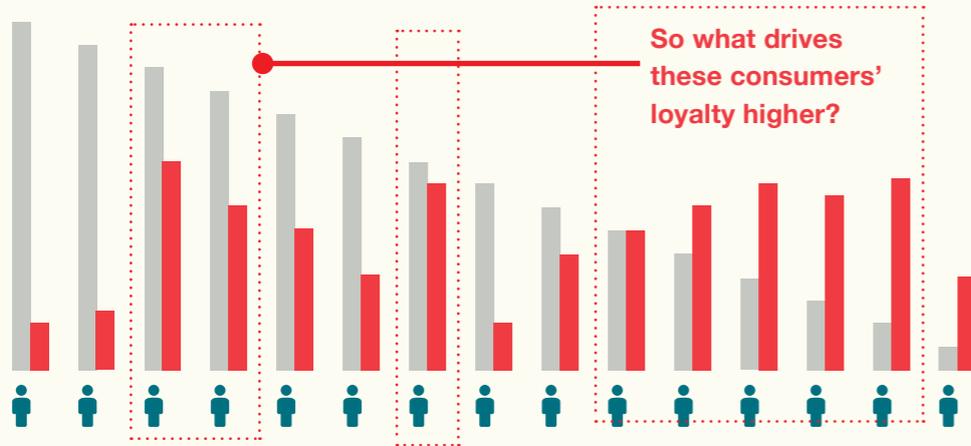


Chart 4 ■ Spend level ■ Share of wallet

Marketers should also consider the long tail of customers as well. Focusing on loyalty across the entire spectrum of customers allows for a longer term view on the value of customer relationships. Some of the lower spending customers might become larger spenders over their lifetime. If brands are able to identify those customers across the long tail, it could be a cost effective means of rewarding loyalty today, and securing the customer for the future. If their spend levels look likely to increase in the future, this may even justify a higher marketing spend per customer than would be logical from looking only at today's spending. The principles of Customer Lifetime Value have been often written about and can be tied to loyalty principles this way. While it is important to woo the higher spender to the brand, it's also important to focus on retaining those loyal customers across the entire customer base.

What about the high spenders?

While we advocate that brands should focus on loyalty across the entire customer spectrum, this does not mean they should not also employ strategies specifically to increase loyalty among the high spenders. Our data show that the propensity to join various loyalty programmes is greater for the higher incomes and the younger age groups - see **Chart 4a**.

% of consumers that would join a loyalty programmes as soon as they hear about it - by age and income groups



Chart 4a

This data can be leveraged by introducing loyalty programmes, sharing benefits and rewards that increase share of wallet for your brand. However, brands should also keep in mind the other side of above charts: the higher income groups may join loyalty programmes “just for the sake of it” and not because they have a strong attitudinal loyalty to the brand. Loyalty programmes that simply provide discounts may not actually help to drive up the share of wallet if the benefit is similar to what competitors are offering.

Instead, what brands should focus on is the entire customer engagement strategy, and then decide whether a loyalty programme is required to deliver or support that strategy. The key is to find out what drives loyalty higher for these customers across all spending segments, which we'll do in the next chapter.

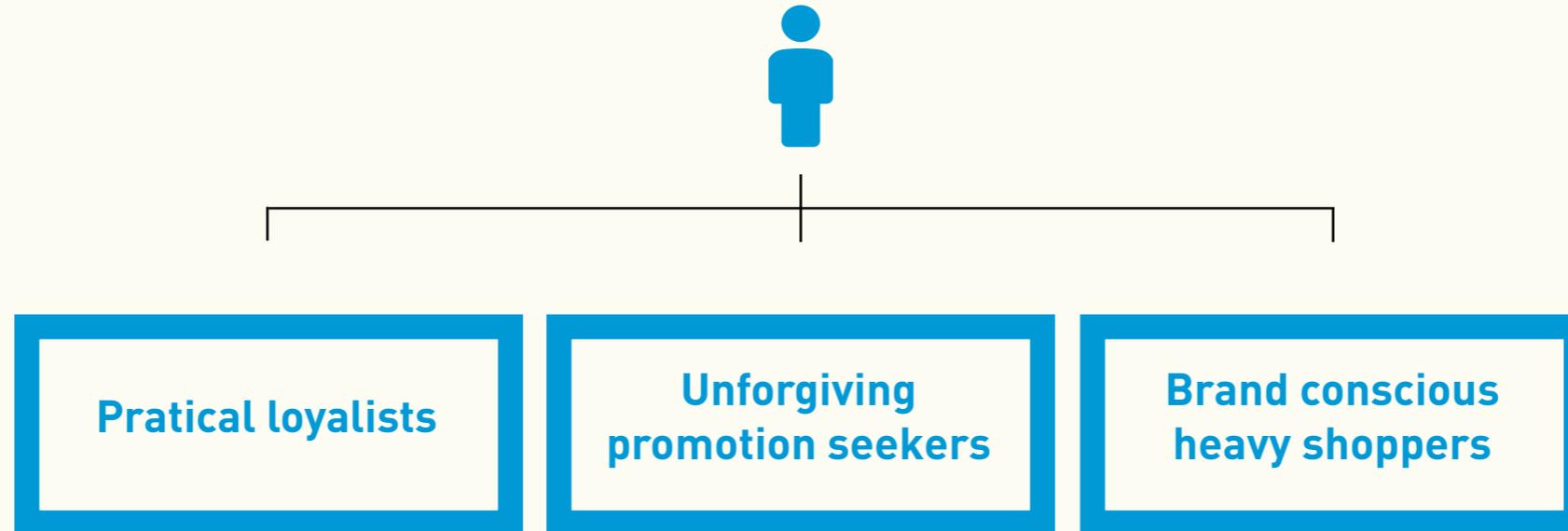
High spenders are not always the most loyal ones

Spend levels are a start, but customer segmentation should go beyond it

The previous section suggests understanding differences in share of wallet and spend levels of your customers can help you manage loyalty better. However, consumer behaviour cannot be described by spend levels and share of wallet alone. All consumers have different needs, behaviours, preferences, and lifestyles, and brands that understand these and use them in their marketing communications, are often the more successful brands from a customer engagement perspective.

In our survey we included several questions about consumer behaviour and attitudes towards brands and loyalty. In addition, statistical analysis (cluster analysis) was carried out to a number of segments with different attitudes. Segmentation analysis was carried out by different product categories. For illustration purposes, the fashion industry segmentation is detailed in **Diagram 4b**.

Diagram 4b

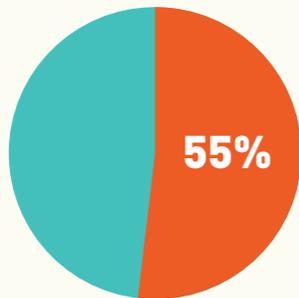


High spenders are not always the most loyal ones

Practical loyalists - 31%

- Buy only what they need and do not care much about brands or offers
- Driven by competitive price
- Tend to be forgiving of brands
- Low volume/frequency purchasers
- Predominantly housewives or non-working females

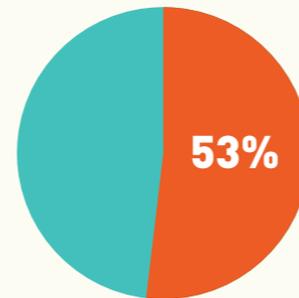
Share of wallet*



Unforgiving promotion seekers - 28%

- Care more about the best deal/promotion than about the brand, always on the look out for special offers
- Unforgiving: will choose another brand in case of negative experiences
- Selective in joining loyalty programmes but this is an important touch point in their choice of brand

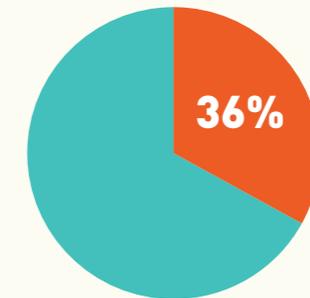
Share of wallet*



Brand conscious heavy shoppers - 41%

- Believe brands are very important and feel that brands say a lot about who they are
- High volume fashion shoppers, and tend to have the largest brand repertoire
- More higher incomes
- Highest % of online purchases
- Keen to share opinion & views
- Enjoy receiving brand communications

Share of wallet*



Loyalty segments in the female fashion category

Three key segments became obvious in the female fashion category, with the most obvious distinction how people claimed to look at brands. On the right most side, the “Brand conscious heavy shoppers” in **Diagram 4b** are those consumers that are most swayed by the power of brands. They agree that their clothing brand is a way of expressing themselves and they also like to share views and opinions about that. Moreover they have the highest percentage of online purchases and they enjoy receiving brand communications.

This segment is where marketers should be active with direct mail, making it easy for customers to share views and opinions on its own social media properties, and where loyalty programmes that answer to the “brand as self-expression” need can be very successful. Think of VIP invitations that customers can invite some of their friends too. Or exclusive items only available to members.

High spenders are not always the most loyal ones

“Unforgiving promotion seekers” care more about the deal than about the brand. They are more fickle and may jump from one brand to the next quite easily. They are also more selective in deciding to join loyalty programmes which means it may take more effort to convince them to join such programmes. But once joined this segment rates loyalty programmes as important touch point in their brand experience.

Lastly, the “Practical loyalists” form an interesting group. They are more driven by pricing than the other two groups, and more often they are non-working females. Despite their lower spending overall they are an interesting segment for brands as they tend to be more loyal to brands (hence their higher average share of wallet).

The less loyal: more likely to enrol themselves in loyalty programmes

Our study found another interesting point: while the highest spenders are the least loyal to single brands, they are in fact more likely to join loyalty programmes - see **Chart 5**. This means that for certain categories one may wonder what percentage of loyalty card holders do so because they truly give the brand a high share of wallet, or whether they are simply after a monetary benefit or incentive.



Fast food industry example

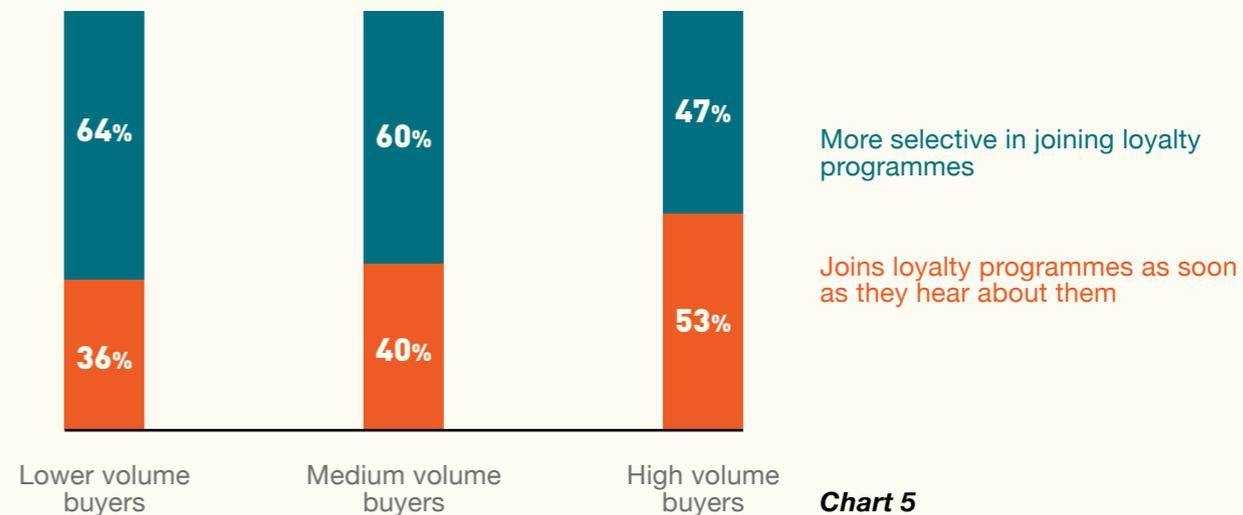


Chart 5

Brand selection drivers: what consumers say is different than what they do

We've seen that loyalty is about share of wallet, and we illustrated that the share of wallet is not correlated with spending levels. So what really drives loyalty – and thus, share of wallet?

Our study shows that drivers of loyalty vary a great deal - from category to category, and from country to country. The overriding insight is that if we look at the importance of loyalty programmes, it is not always the number one factor driving loyalty. However, it often is one of the top 10 elements that drive how consumers make brand decisions.

To find out the main drivers of loyalty we took two approaches:

Firstly, for various categories of products, we asked consumers which aspects they found important in deciding which brand they would choose in that category. This way we get an overview of what aspects consumers SAY is impacting their brand choice.

Secondly, we derived what aspects in a category impacted consumers' brand choice. We did this through a common statistical process that evaluates the share of wallet consumers give to different brands as well as how they rate each brand on various product and service aspects. Statistical calculations allow us to rank those aspects that have the highest impact on brand choice. For instance – if many consumers choose brand A and they also rate this brand high on “value for money”, then “value for money” must be an impactful aspect. Conversely, a higher rating for “environmentally friendly” may not correlate with a higher share of wallet and we can conclude that it is actually less important in the brand choice, despite what the consumer says.

When consumers are asked, they find everything important...

From **Chart 6** it's quite hard to distinguish which aspects are most important to a consumers purchase decision, as they mention many aspects as being important. It's quite hard to see exactly which of the various aspects is most important. Many of them are rated as important. We can say overall that consumers mention many aspects, and that they find many things important.

What consumer SAY is important:



Brand selection drivers: what consumers say is different than what they do

To help identify which aspects actually drove customer loyalty, we overlaid the derived importance of the different aspects.

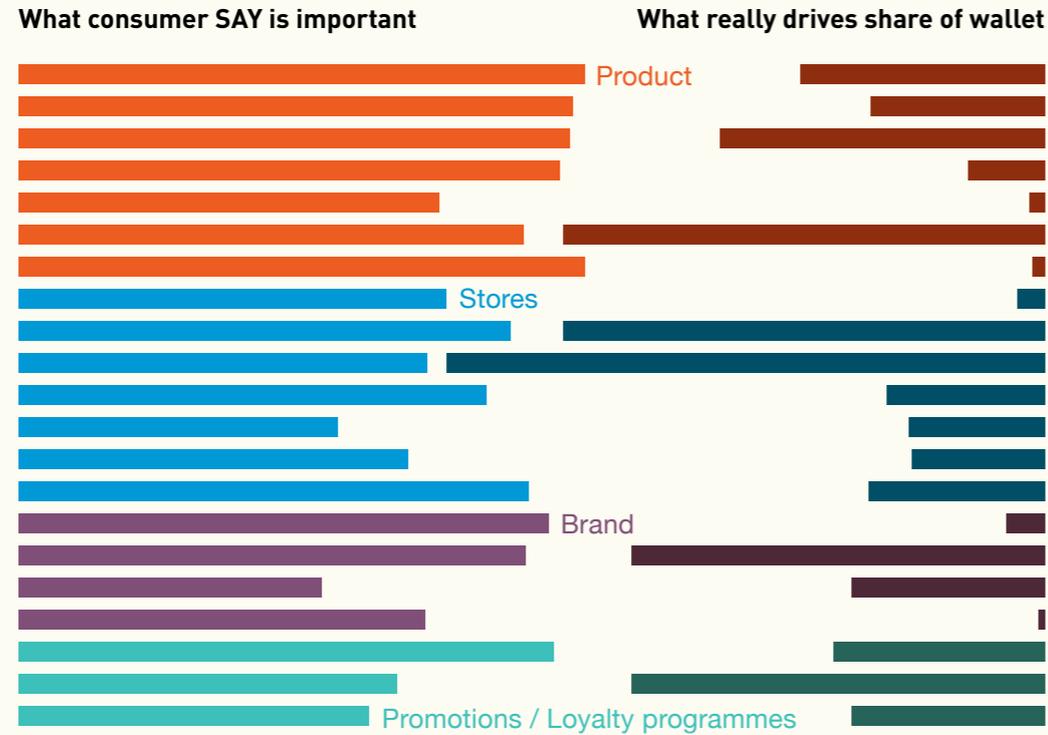


Chart 7 On the left: % of respondents that find each attribute important in deciding what brand to buy (as in chart 6).
On the right: derived importance for each attribute.

What consumers SAY and DO are different things...

The derived importance in this chart shows convincingly that what really drives consumers' loyalty to brands is different from what they say matters to them. The chart tells us three key things:

1. Fewer aspects are really important in driving share of wallet and thus loyalty.
2. The aspects that actually drive behaviour are different from what consumers say and think is influencing them.
3. Promotions and loyalty programmes have a key role in driving share of wallet, though not always the biggest role.

Brand selection drivers: what consumers say is different than what they do

The data in our study suggests that a detailed analysis of what drives share of wallet is necessary beyond taking consumers' top of mind drivers into account. What consumers SAY is in some ways different than what really drives their share of wallet for different brands.

Carrying out this analysis for different categories and different countries has given us the perspective that loyalty drivers are unmistakably tied to local situations and are category specific.

As such, the main finding from this is that loyalty is NOT SOLELY driven by loyalty programmes, rather by many different elements related to product, services, brand, and distribution.

Key take away: if applied, loyalty programmes must be fully integrated, not a standalone programme

The key lesson for loyalty programmes from this is that they must be fully integrated with other key drivers of loyalty in the sector. It's very hard to solve brand loyalty issues with loyalty programmes alone if there are distribution issues, strong price competition, or service gaps with other brands. However loyalty programmes could be the start of a solution as long as they are fully integrated with the other important aspects.



Case example integrated loyalty programme – Discovery Vitality

Discovery Health is a South African health insurance provider which publicly states its commitment to making people healthier and to making a real difference in the lives of its clients.

The provider launched the Discovery Vitality programme which is a great example of an integrated loyalty programme.

The programme incentivises policy holders that truly work on improving their health and wellness.

For example it rewards its clients for visiting the gym, buying healthy food, and offering fitness monitoring tools at a discount.

The benefits for policy holders that fully tie-in to the system are considerable, and can be even bigger if they use multiple health related products and services or have more family members included in the policy.

While key loyalty drivers in the insurance industry are assumed to be about coverage and premium level, the Discovery Vitality brand has essentially created an integrated loyalty programme that incentivises customers to modify their behaviour to improve their health and well-being.

Brand selection drivers: what consumers say is different than what they do

Customer loyalty drivers – two category examples

Loyalty drivers in Singapore's Fast Food market

The Singapore Fast Food market is very competitive. Customers frequently travel around the city, and often their choice of venue is related to their travel patterns. As a result they tend to make more random choices about the restaurants they visit.

Chart 8a illustrates what Fast Food diners in Singapore SAY is important in their choice of fast food restaurant versus what REALLY DRIVES their share of wallet.

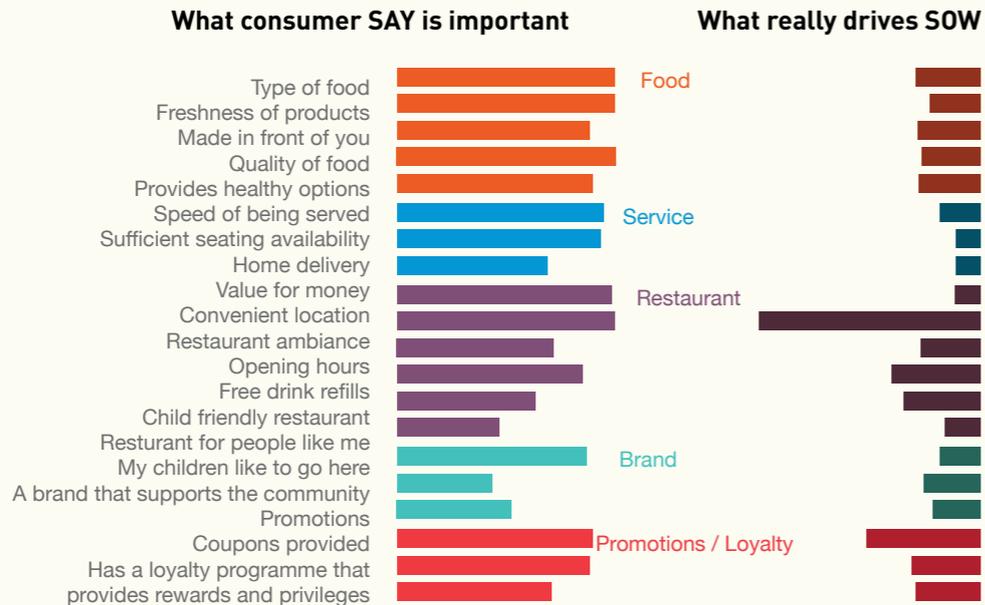


Chart 8a

On the left: % of respondents that find each attribute important in deciding what brand to buy (as in chart 6).
On the right: derived importance for each attribute.

On the left hand side we see that consumers mentioned lots of things, and they rated many of these items as high importance. Food quality, freshness, location, service speed and value for money are all rated almost equally high.

However, when we look at the right hand data on what really drives share of wallet (through the derived analysis) we see a much clearer picture of what drives share of wallet in the Fast Food category emerge:

1. Healthy food options
2. Home delivery
3. Convenient location
4. Opening hours
5. Loyalty programs

Obviously we see here the strong supporting role that a loyalty program can play in the Singapore Fast Food market.

Brand selection drivers: what consumers say is different than what they do

Loyalty drivers in China's Chocolate market

Chocolate bars are a popular snack in China. According to our study chocolate buyers in China consume it several times per week, and when they purchase, they on average buy 3 or more bars of chocolate. We found consumption and spend on chocolate in China to be higher than in the other markets we tested (Singapore, Hong Kong and Japan).

Chart 9 illustrates what chocolate purchases in China **SAY** is important in their chocolate brand choice versus what **REALLY DRIVES** their share of wallet.



Chart 9

On the left: % of respondents that find each attribute important in deciding what brand to buy (as in chart 6).
On the right: derived importance for each attribute.

On the left hand side we see again that consumers mention lots of things, and that they rated many items as being a high level of importance. Brand, taste, value for money, and variety of flavours are all rated high.

On the right hand side we see what really drives share of wallet (through the derived analysis). Which shows that for the chocolate category the following aspects are what actually drives share of wallet.

1. Taste
2. Brand
3. Preferred by children
4. Value for money
5. Variety of flavours
6. Has attractive promotions

While Taste and Brand are obviously important elements, the third one is somewhat surprising, but indicates the importance of children's preference in chocolate share of wallet. Parents will buy what they believe their children like.

While loyalty programmes themselves are not listed in the top ranked elements, we do see that attractive promotions are mentioned as a high impact factor. This links to the point that loyalty programmes can be an enabler to provide attractive promotions by providing data to help the brand target their customers better.

Brand selection drivers: what consumers say is different than what they do

Amazon is often cited as a best-in-class example of a brand that has cultivated a loyal group of customers.

However, unlike most traditional retailers, Amazon has achieved this feat without creating a traditional points based loyalty programme to engender loyalty amongst its customers, but instead has focused on delivering an exceptional brand experience to its customers.

While the brand is well known for its low prices and free shipping, its success has been largely attributed to the way it engenders loyalty amongst its customers. The brand publicly states: 'We work to earn repeat purchasers by providing easy-to-use functionality, fast and reliable fulfillment, timely customer service, feature-rich content, and a trusted transaction environment'.

The logo for amazon.com, featuring the text "amazon.com" in a bold, black, sans-serif font. Below the text is a curved orange arrow that starts under the letter 'a' and points towards the letter 'm', resembling a smile.

Amazon lives and breathes this philosophy throughout their business. Examples of initiatives and services the brand has launched to deliver a customer-centric service include:

- **Uses the customer's historic web browsing behaviour and purchase data to deliver a personalised and engaging experience every time they visit the Amazon website.**
- **Encourages customers to provide feedback on the service and products they consume to help reinforce the purchase decision of other community members.**
- **Helps to put the customer in control of their purchase. For example, Amazon communicates its fulfillment promises in several ways including presentation of latest inventory availability information, delivery date estimates, and options for expedited delivery, as well as delivery shipment notifications and update facilities.**
- **Launch of Amazon Prime, which for an annual fee provides a two-day shipping service on all products purchased via the site, unlimited photo storage, as well as exclusive access to movies, music and Kindle books as part of the membership.**

Amazon believes that having the best products and prices in itself is not enough to differentiate itself from its competitors unless those offerings are matched with a winning customer experience. This strategy has seen Amazon consistently ranked as a best performing brand for customer satisfaction, and ultimately the benchmark for retailers to aspire to.

Use touch points that consumers prefer, but dare to be different

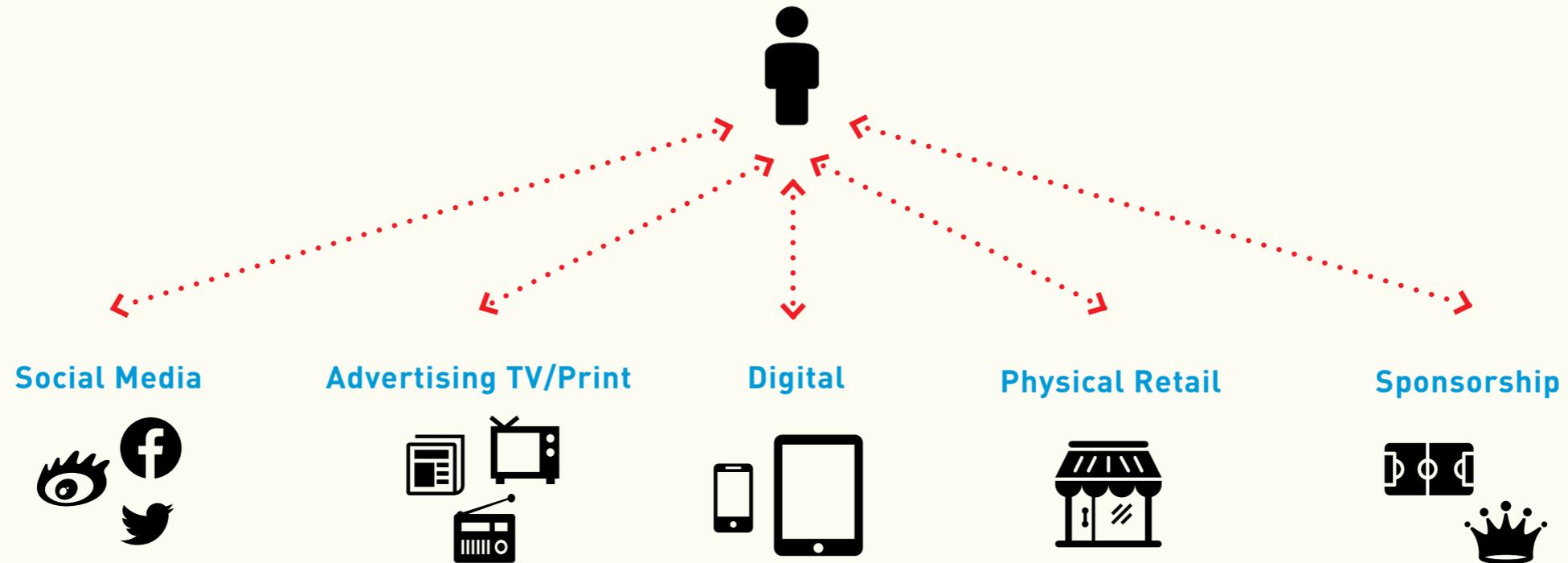
Now that we have established that loyalty is about share of wallet, that we need to look across our entire customer base to incentivise loyalty, and that loyalty programs should be embedded into an integrated marketing plan, we can turn to understanding how communication with customers should be channelled.

The way consumers interact with each other and the world around them has drastically changed over the past years. Brand and communications managers have a wealth of options to reach out to consumers.

But not anymore...

Consumer

- Abundance of channels
- Consumer and brand generated messages



Use touch points that consumers prefer, but dare to be different

There has been an abundance of new channels that we use to communicate with each other and with brands. In China, many brands now use WeChat and/or Weibo profiles to directly communicate to a range of followers. Messages direct from brands can now pop-up on consumers' smartphones like text messages from their close friends and families. Two way communication is possible and is letting consumers post product experiences on social media sites, or to followers.

Increasingly consumers themselves become the generators of brand relevant content with informal reviews, expert opinions, key opinion leaders and formal review sites popping up. In our study we asked consumers what they believed were the most influential information channels in driving their decision to use different brands in various categories.

Table 1 shows findings from five different categories.



Chocolate



Female Fashion



Automotive purchase



Supermarkets



Beer

In-store promotions	49%	In-store experience	55%	Test drive	47%	Advertising - TV, OOH, Print	45%	Advertising - TV, OOH, Print	45%
Advertising - TV, OOH, Print	47%	Advertising - TV, OOH, Print	38%	Car reviews by consumers	40%	Word of mouth	39%	Word of mouth	41%
Word of mouth	41%	Word of mouth	34%	Car reviews by experts	40%	Reward redemption experience	35%	Presence in bars/restaurants	36%
Branded chocolate stores	34%	The brand's website	26%	Word of mouth	37%	Loyalty programmes	32%	Food and beer festivals	31%
Gifts received	27%	Online ordering experience	22%	Manufacturer website	36%	Cashier interaction	26%	Promotions in bars/restaurants	29%

- % of consumers that rate the touch point to be most influential in their brand choice
- Table includes data across all four markets surveyed

Table 1

Different categories, different touch points

One of the first things that becomes apparent from table 1 is that most important touch points are different across the various categories, this it's important to understand the key touchpoints for different categories.

The Power of Word of Mouth

Secondly, indicated in red in the table, we see that word of mouth is the single touch point that is important in every category. While our connected lives have given us a lot more ways to stay connected with friends, this has amplified our sensitivity for word of mouth across most categories we use in daily our daily lives. This is especially true when examining the increasing importance that customers place on social media recommendations from family and friends when evaluating a purchase.

Implications for loyalty marketing

Let's look at some category specific implications from these findings.

Implications for loyalty marketing – the Female Fashion market

For the Female Fashion sector, the fact that in-store experience is such an important touch point may not be too surprising. The interaction of customers with clothing and fashion items in-store is still a key influencer of purchase decisions.

What is more interesting though is the high impact from the brand's website and from the online ordering experience. This makes the Female Fashion category different between the other 4 examples in the table. It is the only category where online elements (website and online ordering) bubble up to the top 5 of most important touch points. Clearly the fashion brands should ensure they have an integrated multi-channel approach to sales, and that they

embrace opportunities across offline and online. From a loyalty programme perspective, brands could facilitate the offline / online integration with loyalty related promotions and programmes. For instance, if loyalty members could make online fitting room appointments through a mobile app, this could provide an added benefit to customers and something that may increase their share of wallet for this brand.

Implications for loyalty marketing - Car purchases

What is interesting in the Automotive category is that advertising does not feature in the top 5 touchpoints. This doesn't mean it's not an important channel, but there are more influential touchpoints in the consumer purchase journey. That doesn't mean it's not an important thing to do, but there are more influential touch points in the minds of consumers.

Test drives are the most influential touch point in driving consumer's car purchase decisions. That is not surprising, as a car purchase for many may be the most expensive or one of the most expensive purchases they'll ever make.

From a loyalty perspective – why wouldn't car brands try harder to get their current drivers to test drive an upgraded or newly arrived model? Test drives require additional resources for dealers and brands, but if targeted right, there looks to be a strong impact from using this touch point more effectively.

Similarly, if we review other touch points we can see that the top three touch points are about experiences. They are either about the driver's own experience (test drive), or by reading about direct experiences from other drivers – expert or consumer and many car review sites have established themselves on the net. Edmunds, Car and Driver, Top Gear are all examples of expert review sites.

Use touch points that consumers prefer, but dare to be different

Still there may be opportunities for brands to let their own fans share experiences in car branded forums. This will allow brand advocacy to happen within a controlled environment and could be tied in to other incentives for sharing of experiences, i.e. one could earn an invitation to a model launch if he/she shares their driving experience online.

How are brands performing on the important touch points?

Besides asking consumers which touch points they found influential, we also asked them how active they found each of the brands they use or consider on the touch points they find important. This way we are able to see what touch points consumers would prefer brands to use for communications, versus what brands actually do.

We found some considerable gaps in this. For some categories and brands, consumers prioritised different touch points than those that brands actually use in their communications. For instance, in the automotive category, we saw previously that the test drive is a hugely important touchpoint, yet most consumers feel that car brands are underperforming in this category - see **Chart 10**.

Touch points in car purchase - impact vs brand performance

Data across all four markets

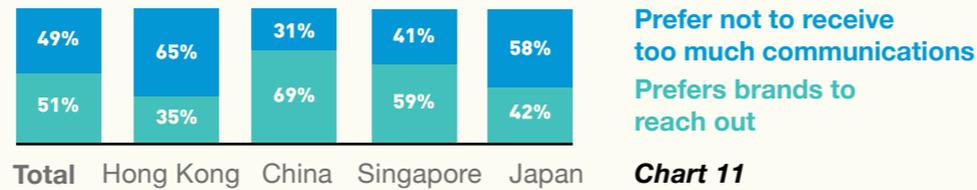


Chart 10 Impact of touch point Perceived performance across all car brands

Put customers in control of communications

One of the most difficult decisions that brands need to make is how to properly engage with their customers. It is about tone, style, frequency, and type of messages. We looked at one of the most basic factors of client engagement, the frequency of communications - see **Chart 11**.

Do you prefer to receive communications from brands?



There doesn't seem to be an overriding majority view on whether brands should reach out more often or less often. Further analysis reveals that the more brand savvy consumers like to be approached more often. However, these consumers are not always the most loyal to brands and may quickly decide to move their spend between brands based on the latest promotion.

The key message this data highlights is that brands should put the consumer in control of the amount of communications they receive. Too often this is not the case and it can lead to frustration when customers are bombarded with offers and promotions once they join a loyalty programme.

In fact the countries where more consumers prefer not to receive too much communications are Japan and Hong Kong. We believe that in Japan this is due to a genuinely more introverted "leave me alone" attitude. While in Hong Kong this is more driven by the large amounts of unsolicited communications (email, direct mail, telephone calls from telemarketers) that the past decade of marketing promotions has created.

Brands should have mechanisms in place that let their customers choose how much and what kind of communications they receive. While many consumers enjoy receiving communications, many – including high loyalty ones – prefer not to receive too many communications.

Instant gratification vs. goal rewards

As the last item in this report, we look at rewards and incentives. While there is a lot more to a loyalty programme than just the incentives, there are some important aspects to them.

We asked consumers whether they prefer instant rewards, i.e. incentives they can redeem immediately such as a discount on a product, or a gift that comes with a bulk purchase, or whether they prefer the goal type rewards, which require the consumer to save up points over a period of time and then be able to redeem a larger reward - see **Chart 12**.

The findings reveal that most consumers prefer instant rewards to goal rewards. The implication for brands is that they should consider having a mixture of goal and instant rewards as part of a loyalty programme. Client engagement can be improved by catering to people who want an immediate return and to those customers who want to save up for a higher value reward.

Loyalty programmes: prefer goal rewards or instant rewards?

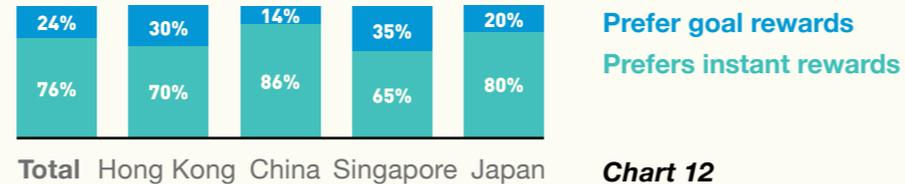


Chart 12

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Loyalty by design – a practical guide



In this last chapter, we aim to bring together all key learnings from the previous sessions, and to provide you with a broad guide to review your brand's loyalty marketing.

① Start at the basics – what are your business objectives

It's important to establish your business objectives and the challenges you are trying to address by implementing a loyalty programme. Ask yourself whether growth to you means finding new customers, or selling more to existing customers?

② Understand your customer segments and their share of wallet

If you decide that your brand's customer loyalty needs attention, work to understand how your customers differ in their behaviour and needs. Do all your customers spend equal amounts with you? Or do spending amounts vary greatly? Why?

If you don't know your customer's share of wallet you may need to do some research. This will give you some first readings into where your brand stands on the loyalty spectrum.

③ Understand the key factors that decide which brands your customers choose

Spending levels are not the only thing that makes customers different. In our study we show that online engagement, the level to which consumers use brands as expression of themselves, and their openness to receive communications from brand differ across segments. The key to a successful loyalty programme is understanding the needs and motivations of the different customer segments it serves, and designing customised strategies to engage them.

④ Where does a loyalty programme fit in?

What unites the loyalty drivers you identified? How could promotions and offers be created that combine the best of what you have to offer and address the key loyalty drivers?

A loyalty programme might be a tool that can help you do this. However, it's a tool and not a means in itself. Remember, loyalty programmes alone don't create loyalty. Any programme needs to be fully integrated in your customer engagement strategy and it needs to mesh with your organisations positioning and branding.

⑤ Design an engagement strategy, differentiate or optimise touch points

As we've seen in our study there are different communications strategies – either optimising towards customer's needs, or create a differentiator.

Use of modern touch points such as the smartphone can be a great differentiator – at least for the categories that we tested. Not many mass retail brands make optimal use of today's state of the art communications capabilities.

⑥ Integrated loyalty programmes

Ultimately, loyalty programmes can be successful if designed well and integrated within the entire customer engagement strategy. Loyalty should be at the core of all engagement decisions, rather than an afterthought or a separate department within an organisation. When designed this way, loyalty programmes can be an effective and ultimately profit driving strategy.

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Methodology overview



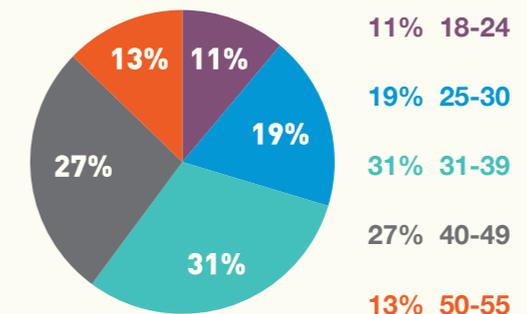
Approach

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



The data used in this study was collected in a survey across four markets in Asia Pacific: Japan, China, Hong Kong and Singapore.

We covered nine different product categories:

- **Female Fashion**
- **Male Fashion**
- **Coffee (purchased for home use)**
- **Beer (purchased in-store for home use)**
- **Chocolate (purchases in-store for snacking or home use)**
- **Supermarket**
- **Fast Food restaurants**
- **Automotive**
- **Car Fuel**

Given the large number of categories and the differences in the user profile across the categories, the study was split into two surveys.

The first survey covered n=300 car owners and intending buyers per country. Respondents to this survey were asked questions for the last two categories from the above list.

The second survey covered the remaining 7 categories and had a sample size of n=1000 per country. To reduce respondent fatigue each respondent was asked to respond for a maximum of 3 different categories that he or she would have personally purchased in the past.

In total we conducted n=5,234 interviews across the four markets. Due to each respondent answering multiple categories the sample sizes for each category are as per the below table.

Sample size achieved for each category	Hong Kong	China	Singapore	Japan
Automotive	301	310	300	300
Car fuel	249	273	240	299
Male fashion	183	234	171	240
Female fashion	319	287	309	234
Beer	483	472	402	463
Coffee	499	484	490	471
Supermarkets	402	495	441	466
Chocolate	491	495	478	470
Fast food restaurants	508	494	495	410

For up to three product categories each respondent answered which brands they chose for the last 10 purchases in that category. This was used to construct the total share of wallet for each brand.

The respondents were also asked to rate the impact of a number of purchase drivers in selecting which brand they purchase. And they rated how well each of the brands they used on all of these purchase drivers. Using regression analysis of purchase driver brand ratings and the brand's share of wallet we derived how impactful each of the purchase drivers is on driving share of wallet, which is used in this analysis.

In addition, respondents were asked to rate both impact and perceived activity by brands on a number of communications touch points. The results of this were used in the touch points section of this.

The survey has been designed, executed and analysed by Intuit Research Consultants. Intuit Research is online at www.intuit-research.com

Thank You

For further information about the report please contact

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