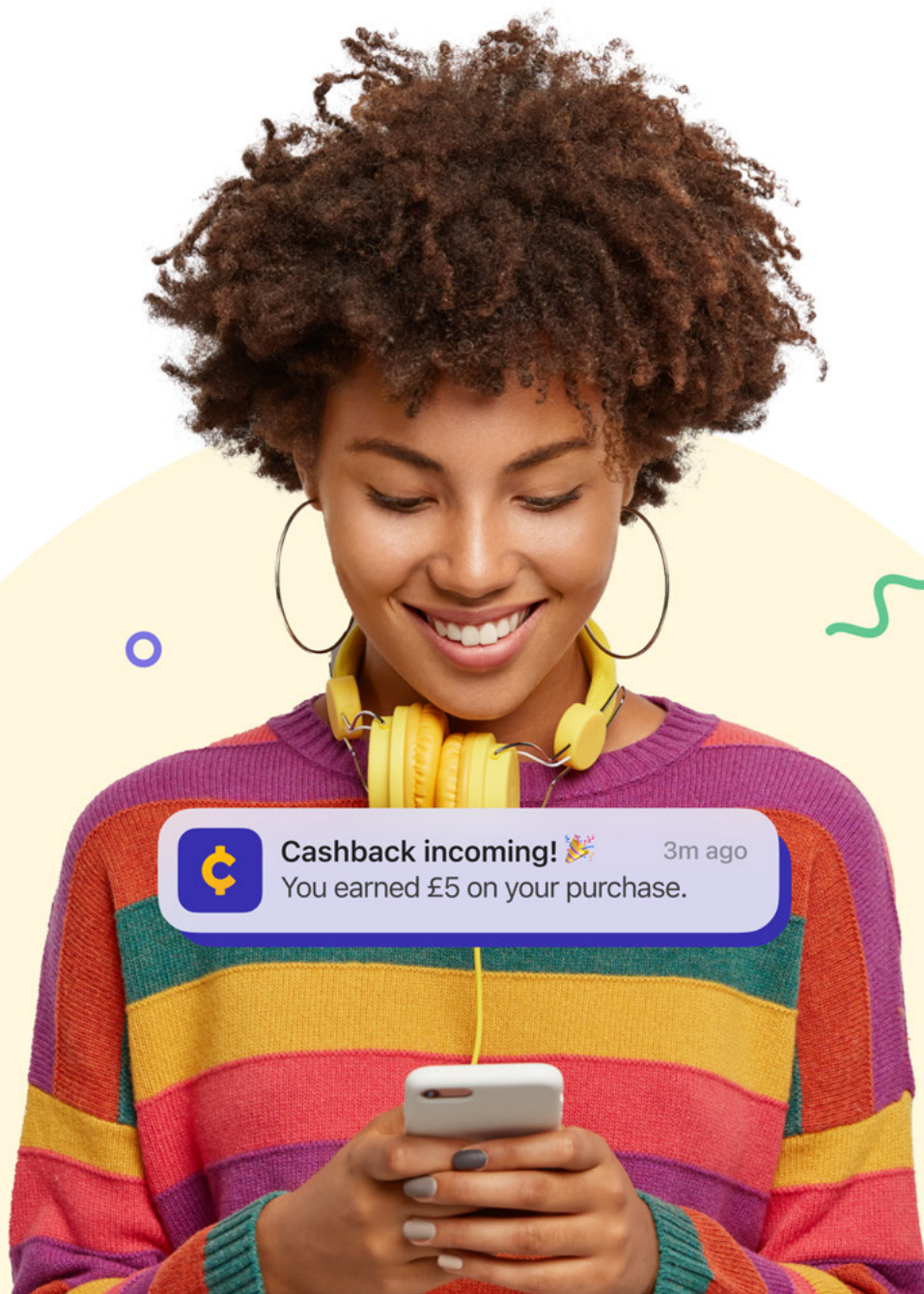


cheddar

The Tipping Point of Loyalty

Turning incidental or first time customers into the
most valuable clients for your business



Cashback incoming! 🎉 3m ago
You earned £5 on your purchase.





Contents

Foreword	3
Introduction	4
About Cheddar	8
Contributors	9
Macro Industry Review	10
Identifying 'The Point of Loyalty'	12
How Loyal Are Your Customers Really?	15
Why Care About Improving Loyalty?	17
The Tipping Point of Loyalty	21
The Loyalty Driver	25
Online Versus Offline	27
The Impact of Coronavirus	32
Category Breakdowns	37
The Qualitative Nature of Loyalty	51
Conclusion & Recommendations	59
Get In Touch	61



Foreword

Foreword by Henry Lane Fox
Retail Expert

“Online and e-commerce businesses have gained significant ground on traditional retailers over the past two decades. Covid-19 and the resulting lockdowns have accelerated this trend even more.

The competitive advantages of online businesses are mainly speed, range, price, simplicity – these are key attributes for me.

What has remained elusive until now is the ability to truly know your customers outside of what they do in your store or on your website. Yes, online tracking systems and analytics companies have been providing customer personas and insights for years. But it's always lacked actionability or tradability. And with the rise of privacy awareness and concerns, the industry is shifting under our feet.

I'm really excited about the new possibilities that come with data like open banking data, and the insights that can be derived from it. Understanding not only CLTV per customer, but the size of their wallet in any given category, is a game changer. It will change how much firms invest to acquire customers, how much they invest to keep them, and helps the sector understand whether there is upsell or cross sell capacity.

In addition to this, being able to know your customers' spending habits and wallet across different channels (online and in-store) is super helpful. Very few retailers have been able to achieve this level of understanding. As the world continues to shift online and in-store becomes an 'experience', understanding these patterns will become increasingly important.

All of this insight combined together within a simple to understand action point like the 'tipping point of loyalty' is very helpful.”



Henry Lane Fox
Co-Founder & CEO
Founders Factory

Introduction

Why now?

We live in a world where everything is at your fingertips. There is so much choice, and so little friction to purchase.

This is great for us as consumers, but the job of the retail marketer is so much harder. The battle for consumers' time, attention and loyalty is fiercer than ever before.

Cheddar has a unique vantage point on these issues. Through our technology, we analysed the complete spending habits of a sample of 7,500 consumers to understand which retailers they shop at, how frequently they shop there, and how much they spend.

We've analysed this spending data in depth, which you'll see later in this paper, but also conducted over 120 conversations with large national retailers in the UK over the past 18 months. The feedback has been consistent:

- Customer loyalty was heavily affected during lockdown and is now harder to get back
- National lockdowns have made it harder (if not impossible) to plan
- Customer Acquisition Costs (CAC) have gone up
- Competition over the same scarce resources has increased. The impact of Brexit and Covid on supply chains has been fundamental
- The focus is on quality of sales and margins, not just the sales volume

None of these challenges are new; in one form or another, retailers have been faced with these challenges before. What has changed is the data and methods available to them to tackle these challenges.



Why this?

Most retailers would have largely relied on the intuition of very experienced traders, buyers and marketeers to see them through times of crisis, using smart product choices, hard-nosed supplier negotiations and innovative marketing campaigns.

We typically see companies in one of these three stages of maturity:

- ¢ Those at the “entry level” in their marketing journey measure and optimise their customer acquisition costs or CAC. Whilst this is an important measure of the success of individual one-off campaigns, it does not optimise value for your business. Businesses in this phase typically spend a lot on recapturing the same customers over and over.
- ¢ The next stage in development we see is when retailers become more sophisticated both in terms of their marketing, but also in terms of understanding customer behaviour. The focus shifts to retention. Metrics like cost of retention and retention rates are tracked. Campaigns are designed to drive repeat shopping in an attempt to increase the customer’s tenure with the business.
- ¢ The most sophisticated marketers and retailers are those that are measuring share of wallet (SOW) and customer lifetime value (CLTV). Some retailers have achieved this level of sophistication, and those that have find themselves paying for expensive consultancy services to provide this data periodically. Even for the Retailers measuring SOW and CLTV, only a handful are able to actively take action on these insights.

Now, in 2021, there are additional tools available to the forward thinking retail executive. Open Banking data, and later Open Finance data, has the ability to give retail execs the ability to have an accurate, real-time view on the landscape of consumers.

Not only are they able to analyse their own customer behaviours, but also the behaviour of consumers that are:

- a) Not yet their customers
- b) Typically infrequent customers
- c) Incidental customers



What's new?

Share of Wallet, loyalty levels, CLTV are not new. But retailers now have:

1. The ability to quantify exactly how much each customer is worth to them:

Not just based on how much consumers spend in their own stores, but the total wallet value of a customer across all their spend in your category.

For example, our analysis has found that a retailer's most loyal customers, who we term in this report as their "VVIPs", usually spend between 10 to 30 times more, annually, than those customers that aren't particularly loyal to your brand.

2. The ability to target and attract potential VVIP customers

Cheddar's customer spend data enables retailers to understand which customers are high spenders in their category, but not yet shopping with you. Using this data, we're able to provide retailers with a way to move their customers through the "loyalty journey" and create more VVIPs.

What you'll learn:

In this white paper we will explore:

1. What's the "tipping point of loyalty" for your customers – what number of purchases and level of spend does it take to move a customer to become "loyal" to your business
2. How much more valuable a loyal customer is than someone that infrequently shops with you – "loyalty driver"
3. How consumer behaviour differs online vs offline, and
4. What loyalty looks like within the different retail verticals / sectors

Armed with these insights, and with access to spend data like this in your own business, you'll be able to:

1. Know the value of your customer
2. Spend your marketing budget selectively on the high value customers
3. Apply the minimum effective dose of loyalty incentives to keep your most valuable customers (VIPs and VVIPs) loyal to you



What's next?

In each section, look out for the 'Actionable Insight' – this is where I will highlight the key steps to take.

Example:

- a) Actionable insights
- b) Get in touch

Send us a quick email and we'll gladly work with you to unlock this value for your business.

partners@cheddar.me



About Cheddar

Consumers have never had so much choice. Competition is heating up like never before.
It's crucial for retailers to stay ahead of the game or risk becoming irrelevant.



Get started now. With no integrations required, it takes just 7 mins.

Contact us to find out more – partners@cheddar.me

Contributors

We are very grateful to the experts that contributed to this report



[Tanya Bowen](#)

Chief Digital Officer |
NED | Single Customer
View Specialist



[Marcus East](#)

Chief Digital Officer at
T-Mobile US | NED | Inves-
tor | BCS Fellow



[Nikhita Hyett](#)

Managing Director –
Europe at BlueSnap



[Henry Lane Fox](#)

Co-founder & CEO
at Founders Factory



[Pete Markey](#)

Chief Marketing Of-
ficer at Boots UK



[Paul Martin](#)

Global Retail Lead &
UK Head of Retail at
KPMG



[Jonathan de Mello](#)

Equity Partner
at CWM Retail
Consulting



[Martin Newman](#)

The Consumer
Champion



[Tom Peace](#)

Managing Director
at The Loyalty
People



[Sam Short](#)

Data Science
Manager Deliveroo.
Formerly Upside



[Adrian Swincoe](#)

Customer experience
advisor | Best-selling author
| Speaker | Workshop leader |
Aspirant punk at Punk CX



[Tessa Unsworth](#)

Former Chief
Partnerships Officer
at PPS

Macro Industry Review

Review by Paul Martin

Lead & UK Head of Retail KPMG

Loyalty is not dead, but it is certainly changing its look. The days of retailers needing only to look at what goes on inside their own stores are numbered as the retail industry is transforming in the way it views loyalty. So far within retail, we've gone through 5 generations of loyalty:



1st gen – The Advantage Card: in-store earning points, to bring people back into the store.



2nd gen – The Membership Card: the big innovation was looking at SKU level data, so cross selling was done between products. People that buy ice-cream might also like chocolate sauce.



3rd gen – The Exclusive Club: wanting customers to feel like they are part of an exclusive club by offering special events, special discounts, exclusive gifts.



4th gen – The Service Bundle: Large ecommerce were re-writing the book on loyalty by understanding that it's about frequency of consumption. Began bundling various streaming services, shipping, and payment methods for the customer's convenience.



5th gen – The Superapp: an app which the user never leaves. It serves all their daily task needs from communications through to shopping and commerce.

Continued...

Five recommendations to increase customer loyalty in today's business landscape:

1

Retailers must remember that consumers don't think about having a different wallet per brand – to them there is only one wallet, their own. It's the retailer's task to capture as much of that wallet as possible. The key activity therefore is to 'predict future behaviour' which means you have to be able to measure performance in near real time.

2

Some clear trends we are seeing within the retail industry are a drive towards greater customer power and choice and a rise in purpose-led businesses. Business models are changing and partnerships are becoming key to the future of retail. The cost of doing business is also shifting, for example running retail is getting more expensive and essential retail will have to reduce their costs by 10–20% by 2023. Non-essential retail will have to reduce even more by 25–50% of their costs to stay competitive.

3

We are seeing that retailers are actively looking for new-gen loyalty solutions. For instance, some major supermarkets are currently investigating and launching new loyalty programmes. A decade ago in 2010, retail's main debate was online vs offline. However this ship has sailed and it's no longer one or the other but rather both. Since 2020, there's a new debate and it's all about privacy vs convenience for the customer.

4

My advice to retailers is get to know your customer as well as possible and know the costs of acquisition, net retention costs, sales costs per customer. Look for the right data and tech, focusing on quality over quantity and drive purpose & reputation in your proposition. Thinking about the well-being of the individual, the planet and the mind is key.

5

I am very supportive of the research into the Cheddar 'point of loyalty' as I believe Open Banking and spend data, and most importantly understanding customer lifetime value at a near individual level, is a great addition to retailers to help them stay one step ahead of their competitors.



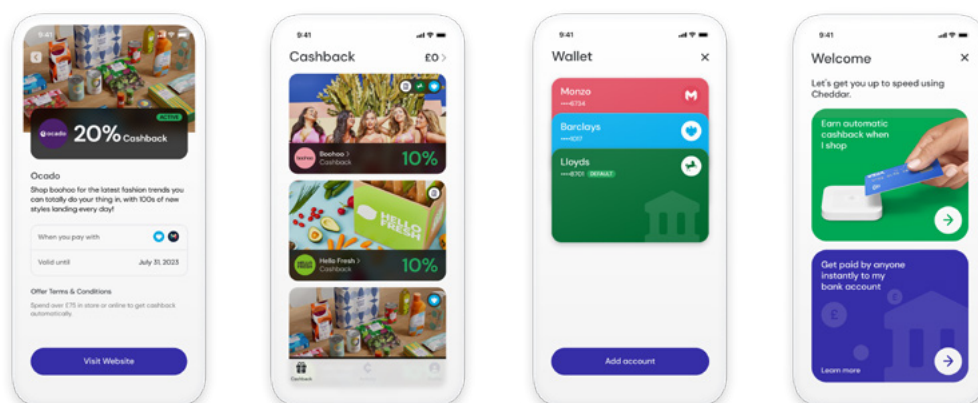
Paul Martin
KPMG Global Retail
Lead & UK Head of Retail

Identifying The ‘Point of Loyalty’

When passing trade moves to regular purchase

Owing to a series of reforms, known as Open Banking, consumers can opt-in to securely share their individual shopping transactions, regular payments they make, and companies they buy from, collectively known as spend data¹, with approved companies.

Customers of Cheddar connect their bank accounts via open banking; this is to enable Cheddar to automatically pay cashback into an e- wallet as customers spend with retail partners. In addition to future financial transactions, when a bank account is connected, customers provide up to 36 months of historical spend data, enabling Cheddar to hyper-personalise retail offers.



Cheddar anonymises the spend data to fully protect the privacy of customers and are able to derive comprehensive and actionable insights pertaining to consumer spending behaviour, whilst ensuring that competition law is fully adhered to. For retail partners, Cheddar can benchmark them against their competitors and other retailers in their category on a multitude of dimensions including, but not limited to, average order value, frequency of shop, category and wallet share, in addition to identifying behavioural patterns.

For the purpose of this report, we investigated consumer loyalty across the following categories:

- Clothing and Accessories
- Coffee Shops
- Department Stores
- Fast Food
- Health and Beauty
- Supermarkets and Groceries.

1. Companies accessing spend data must be authorised and regulated by the Financial Conduct Authority (FCA), some examples of these companies include: personal financial management apps (to display all bank accounts in one place), credit scoring companies (to “boost” credit scores), and, of course, cashback services like Cheddar (to effortlessly earn money whilst spending with retail partners).

Continued...

The spend data used to understand consumer loyalty within this report was from a sample of 7,500 customers, with a total of 15 million open banking transactions from 2019, 2020 and 2021. The selection of customers span the UK, 27% are based in London, and are aged between 18 and 72, with 50% of customers being aged between 26 and 42.

As Cheddar has access to the entirety of a consumer's wallet, our analysis offers significant benefits over traditional market research data, namely that the behaviour observed is actual spend behaviour, rather than surveyed behaviour.

There are many ways to define 'loyalty'. Traditionally, consumers might be grouped into different segments based on their behaviour with a retailer. As we have the ability to view the entirety of a consumer's wallet, across all retailers and categories, we chose to define loyalty as a measure of how much of their wallet in a specific category a consumer would give to one individual retailer.

Thus, we define four types of share of wallet loyalty:

- **Not loyal** (a consumer gives up to and including 25% of their wallet in an individual category to one retailer)
- **Loyal** (26–50% wallet share)
- **VIP** (51–75% wallet share)
- **VVIP** (above 75% wallet share)

On an individual consumer-by-consumer basis we analyse the yearly spending behaviour for each retailer and each category from 2019 until August 2021.

The results presented for 2021 contain a prediction for the remainder of 2021, based on historical spending patterns from Jan 2019 until Aug 2021.



Find lookalike customers

Identify new customers with similar spending habits to your ideal customers, then target specific segments



Acquire customers from competitors

See competitive segment spend, both online and in-store, and present accurately targeted offers



Increase existing customer spend

Gain insight into AOV and frequency of spend, set offer thresholds and measure the difference



Re-activate lapsed customers

See when people stop spending with you and identify early signs of those that are at risk

Actionable Insights

Create a simple list of your customers, ranked by total spend. Divide your customers into ‘not loyal’ (bottom 25% of that list), ‘loyal’ (26–50%), ‘VIP’ (51–75%), and ‘VVIPs’ (top 25%). Knowing how much a customer is worth is the first step toward deciding how much to spend to make them more loyal.

How Loyal Are Your Customers Really?

Many retailers might think that their customers are loyal to them because they spend “a lot” of money each year. But what if these customers who spend “a lot” with one retailer, also spend “a lot” with another?

We examined the share of wallet for each category, to understand true loyalty patterns at a category level.

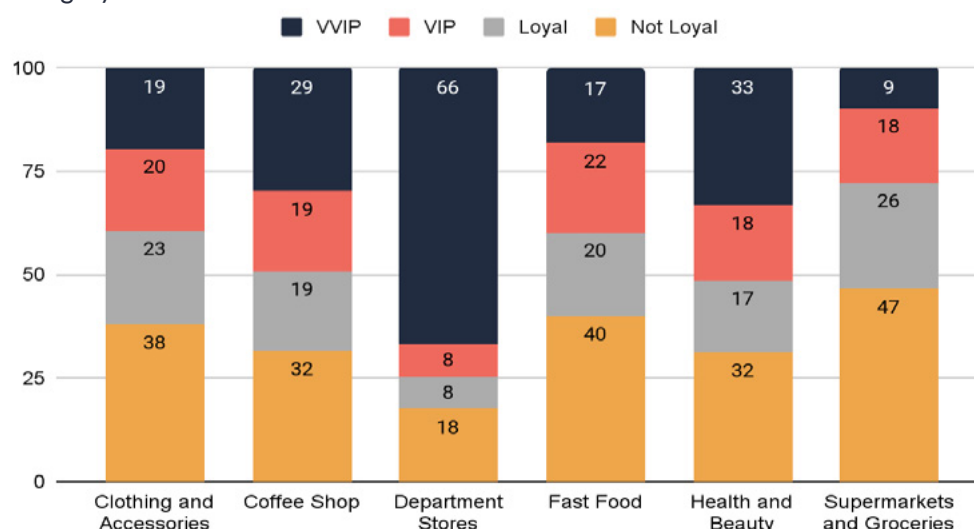


Figure 1: The share of wallet given to a retailer in a specific category averaged across 2019, 2020, and 2021. For example, for “Clothing and Accessories” 38% of customers are “not loyal” to retailers within that category, 23% are “loyal”, 20% are VIP, and 19% are VVIP.

We found that department stores have the most loyal customers – over 66% of customers are VVIP and will give one department store over 75% of their wallet in that category.

The huge percentage of loyal customers in the Department Store category could be a result of fewer options² in addition to the range of products that can be purchased (clothing, accessories, specialty foods, homeware, furniture), which could drive an increase in spend.

The customers of supermarkets and fast food retailers are the least loyal, with 47% and 40%, of consumers giving less than 25% of their category wallet to one individual retailer, respectively. Health and beauty retailers and coffee shops are the most polarising – they have almost equal numbers of not loyal and VVIP customers.

When we asked for his thoughts on these findings, Pete Markey, Chief Marketing Officer at Boots UK noted that the data showing 33% VVIPs for Health and Beauty is in line with what he would expect. He also noted that consumers are very loyal to brands, not just retailers. As an example, a customer might be loyal to MAC Cosmetics and will purchase it simply from the most convenient retailer.

2. 83% of high street department stores have closed in the last five years. Only 79 stores remain across the UK's largest chains such as Debenhams, BHS and House of Fraser, compared with 467 in 2016.

Actionable Insights

Compare your customers % split ('not loyal', 'loyal', 'VIP', and 'VVIPs') from the previous chapter against the market averages; this will give you an idea of where to focus your attention first, when increasing the loyalty of your customers.

Why Care About Improving Loyalty?

The revenue multiplier

Even though a customer might spend a lot of money with a specific retailer, there is often still money, or share of wallet, left on the table. We looked at the customer-level yearly spend for each loyalty level and found there are huge gains to be made by moving a customer up the loyalty scale.

Category	Not > Loyal	Loyal > VIP	VIP > VVIP
Clothing and Accessories	2.7	1.8	1.9
Coffee Shop	2.9	1.7	1.9
Department Stores	2.2	1.9	8.8
Fast Food	3.0	1.9	1.6
Health and Beauty	1.7	2.5	1.4
Supermarkets & Groceries	5.0	1.9	2.8
Category Average	3.3	1.9	3.5

Table 1: total yearly spend, averaged across 2019, 2020, and 2021 (including a prediction for Aug-Dec) for each level of loyalty. For example, for the Supermarkets and Groceries category “not loyal” customers spend on average £107 per year with a retailer, whereas “loyal” customers spend £537 per retailer, and “VIP” and “VVIP” customers spend £998 and £2,770, respectively. The deepness of the colour is indicative of the customer’s annual value; the size of each loyalty level is representative of the number of people currently at that level in the market.

As the above figure and table suggests, converting a customer from the “not loyal” level into “VVIP” produces the best increase in revenues. On average, one VVIP customer is worth 22x a “not loyal” customer. The promotion from “not loyal” to “VVIP” yields different monetary rewards, depending on the category; Clothing and Accessories, Coffee Shops, and Fast Food give a ~10x revenue multiplier, whereas for Supermarkets and Groceries the prize could be as high as 27x.

In support of these findings, Pete Markey, CMO at Boots UK comments, “The value of loyal customers here makes sense, as at Boots UK, we know that people with a loyalty card are worth a lot more to us.” He adds that understanding the difference in value between loyal and non-loyal customers is especially important in the digital world. “Being able to see new, existing and lapsed customers and then being able to retarget and move them between the boxes – that is the real value. That’s the power of this application.”

The Revenue Multiplier

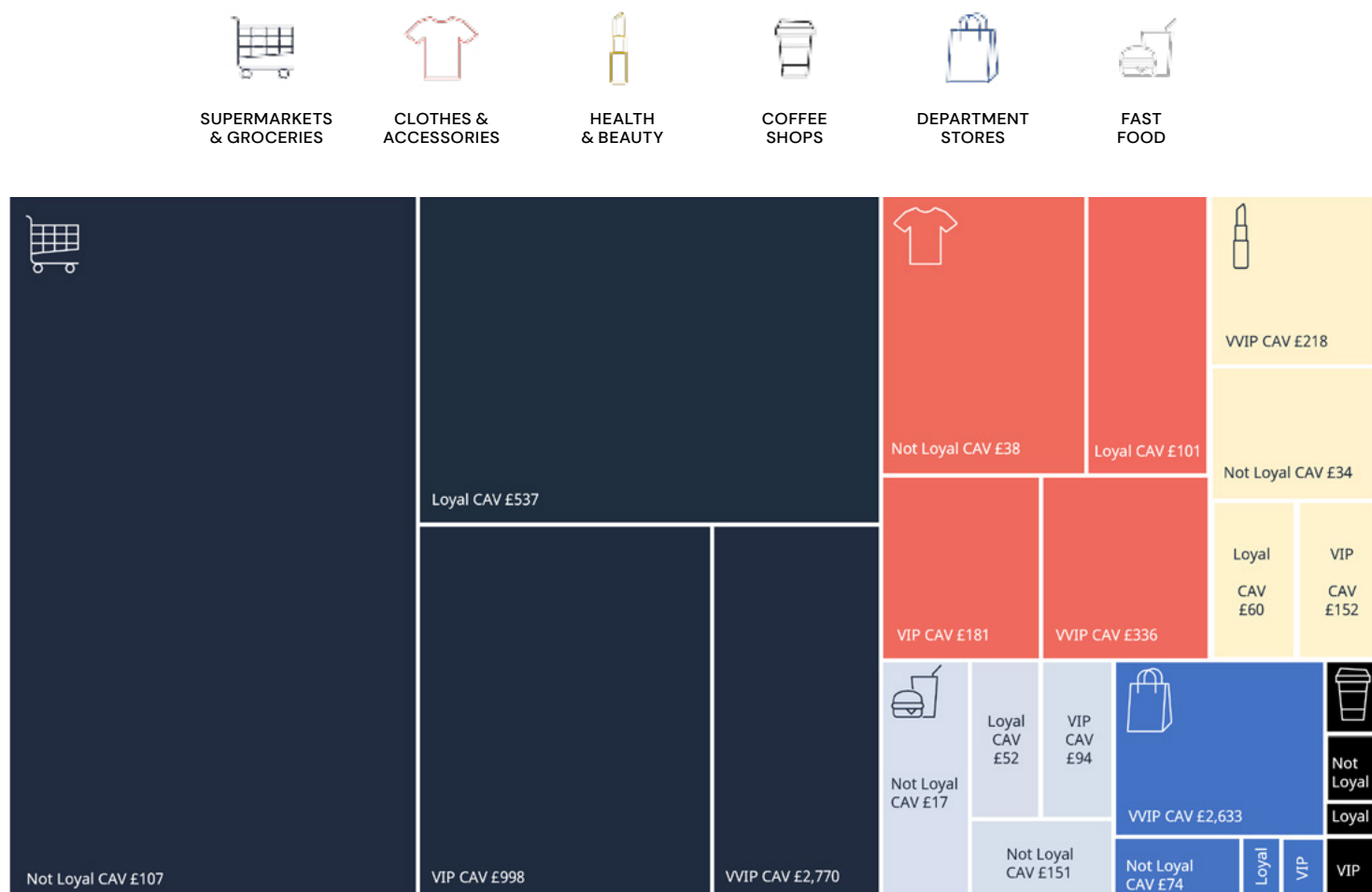


Figure 2: total yearly spend, averaged across 2019, 2020, and 2021 (including a prediction for Aug-Dec) for each level of loyalty.

For example, for the Supermarkets and Groceries category “not loyal” customers spend on average £107 per year with a retailer, whereas “loyal” customers spend £537 per retailer, and “VIP” and “VVIP” customers spend £998 and £2,770, respectively. The deepness of the colour is indicative of the customer’s annual value; the size of each loyalty level is representative of the number of people currently at that level in the market.

Being able to see new, existing and lapsed customers and then being able to retarget and move them between the boxes – that is the real value. That's the power of this application.



Pete Markey
CMO at Boots UK

Actionable Insights

Compare your individual customer annual values (CAV) from your own data to the industry levels above. What share of wallet are you driving? Are you generating maximum value from your customers?

The Tipping Point of Loyalty

Lucky number 13

Having identified that retailers are leaving money on the table when it comes to maximising their share of a customer's wallet, we delved further into the customer loyalty levels to define a "tipping point of loyalty".

It is difficult for retailers, without access to the insights obtained from Open Banking data, to know if a customer has the potential to be loyal, VIP, or VVIP. Cheddar's point of loyalty provides a guide to the total number of purchases, or total spend, per year required to be a loyal customer³.

Whilst the tipping point of loyalty differs across categories, the overall number is 13 or £251 i.e. retailers need to get a customer to make 13 transactions per year or spend £251 in a year to ensure they fall into the "loyal" level.

Category	Customer Annual Value			# of Transactions per Year		
	2019	2020	2021	2019	2020	2021
Clothing & Accessories	£ 127	£ 136	£ 168	5	4	6
Coffee Shop	£ 37	£ 40	£ 57	7	7	10
Department Stores	£ 218	£ 177	£ 308	4	3	4
Fast Food	£ 61	£ 67	£ 82	10	10	12
Health and Beauty	£ 62	£ 75	£ 105	5	5	6
Supermarkets & Groceries	£ 568	£ 827	£ 783	33	40	39
Category Average	£ 179	£ 220	£ 251	11	12	13

Table 2: for 2019, 2020, and 2021 (including a prediction for August until December) the number of transactions in a year and total yearly spend for customers in the "loyal" level.

On average, as the above table indicates, with every year it becomes more difficult to obtain a customer's loyalty, as both the total number of transactions and spend per year required to be defined as "loyal" increases from 2019 to 2020.

We put this to our panel of retail experts for their perspective on the data. Tom Peace, Managing Director of The Loyalty People said that he agrees with the high level findings and stresses that the key to success for retailers is "to understand what the cognitive and behavioural notion is behind this tipping point occurring in customers".

3. Where loyal customers are defined as those spending 26% – 50% of their wallet with a specific retailer

Continued...

Jonathan De Mello, Equity Retail Partner at CWM Retail Consulting, concurred, saying that “the research makes sense, and is in line with my experience and expectations”. He believes the key for retailers is “actionability” – “how can they then turn the knowledge of this tipping point into increased sales or improved profit”.

Customer Experience expert Martin Newman said “looking at the research into the ‘Cheddar tipping point’, the results don’t surprise me at all. Although 13 is found to be the average number of times a customer needs to shop with a retailer to become loyal, it is possible for customers to become loyal after just one visit if they had an exceptional experience”. Martin Newman raises a good point about the quality of the experience that retailers are able to provide, but also the importance of retail brands as a signifier of trust. Customers can become loyal to particular brands, and this creates a greater level of loyalty beyond the traditional marketing paradigms of product, price, place and promotion.

Retail expert and former Director of CRM Loyalty and Clienteling at BT, Tanya Bowen said “the average point of loyalty established by Cheddar does feel right for industries like fashion and footwear”. However, she noted that at other customer facing organisations she has worked at before they have used different cohorts to understand their customers, saying, “it’s important to recognise and understand the upper levels of loyal customers, the top 25%, top 10%, and of course outliers that represent the top 2% of your profit. Data like this research from Cheddar can help articulate the value of VVIP’s to businesses”.

Pete Markey, CMO at Boots UK agreed that the figures for 2021 in Health & Beauty match his expectations. He added, “The key is having compelling and consistent conversations with customers. You’ve got to think beyond the initial sale.” Pete also noted that the increase in the tipping point of loyalty is interesting, and that it does make sense when taking into account factors such as more competition and the move to digital or online shopping. He expanded, “This just reiterates how important it is to ensure there is ease of shopping and convenience. Customers will stick to the sites that are usable and easy to use.”

Henry Lane Fox, CEO at Founders Factory, describes the ability to get this level of customer insight from actual spend data as a “game changer”. He expanded, saying “understanding not only Customer Lifetime Value per customer, but the size of their wallet in any given category, changes how much firms invest to acquire customers, how much they invest to keep them, and helps the sector understand whether there is upsell or cross sell capacity.”

Understanding not only CLTV per customer, but the size of their wallet in any given category, is a game changer. It will change how much firms invest to acquire customers, how much they invest to keep them, and helps the sector understand whether there is upsell or cross sell capacity.



Henry Lane Fox
Co-Founder & CEO at
Founder's Factory

Actionable Insights

Humans are habitual creatures. We consistently see the same patterns in spending behaviour. It's therefore really important to understand the frequency of people's shopping with you.

Perform the same exercise as in the first 4 chapters, but this time do it based on frequency of shop: i.e. rank your list of customers by number of purchases and divide that list 'not loyal' (bottom 25%), 'loyal', 'VIP', and 'VVIPs' (top 25%) and work out how many times customers shop with you each year.

The Loyalty Driver

Three is the magic number

Looking at loyalty another way, we can quantify a “loyalty driver”; this is the number of times more retailers need to get a customer to engage, either through increased transactions or increased spend, per year to turn them from a “not loyal” customer into a “loyal” customer⁴.

Whilst the loyalty driver differs across different categories, the overall number is three i.e. retailers need to get a customer to make three times as many purchases, or spend three times as much money, in a year to promote and drive them to the next loyalty level.

Category	Spend Loyalty Driver			Transaction Loyalty Driver		
	2019	2020	2021	2019	2020	2021
Clothing & Accessories	3	3	3	3	2	2
Coffee Shop	3	3	3	2	2	3
Department Stores	2	2	2	2	2	2
Fast Food	3	3	3	3	3	3
Health and Beauty	3	3	2	3	3	2
Supermarkets & Groceries	5	5	5	4	4	4
Category Average	3	4	3	3	3	3

Table 3: for 2019, 2020, and 2021 (including a prediction for Aug-Dec) the number of the “loyalty driver” to convert a customer from being “not loyal” into “loyal”. For example, in 2021 in the Supermarkets and Groceries category, it is necessary to get a customer to increase their spend 5x or number of transactions by 4x to promote them into the “loyal” level.

Considering the number 3 as the ‘loyalty driver’, Pete Markey, CMO at Boots UK, commented that this was particularly interesting as he has not seen the number 3 associated with this measurement before. He added, “Intuitively this makes sense. If I think about it, it comes down to the muscle memory that customers build up. I definitely buy into this logic.”

When assessing the practical implications of these numbers Pete said “Being able to give a CRM team a clear objective of securing 3 or more visits – now that is really powerful”.

4. To move a customer from the “not loyal” level (spending up to 25% of their wallet for that category with a retailer) to the “loyal” level (spending 26% or more of their wallet for that category with a retailer)..

Actionable Insights

Give your CRM teams a clear goal to get each customer back into your store or onto your e-store 3 more times, with clear parameters to not spend more than the incremental CLTV as shown earlier in the report.

Online Versus Offline

As anyone in retail will tell you, ecommerce has seen explosive growth in the last 18 months. The [Salesforce Shopping Index](#), a global analysis of nearly 2,000 digital commerce sites globally identified that global ecommerce grew 58% in the last year, and UK ecommerce grew 98%, the third fastest-growing nation that the survey looked at.

Given the growth, particularly as a result of the pandemic, we wanted to understand the differences in consumer behaviour between ecommerce and in-store transactions. Thus, we focused on the “Clothing and Accessories” and “Supermarkets and Groceries” categories, as it provided many retailers for comparison (as compared to the Coffee Shop category, for example, which is predominantly in-store).

Analysis of our own spend data highlights a noticeable difference in achieving customer loyalty between online and in-store retailers. In order to become a loyal customer to an online retailer, customers need to spend more frequently and at higher value than they do to become loyal to a bricks and mortar retailer, as shown in the table below.

Annual Spend	2019	2019	2020	2020	2021	2021
	In store	Online	In store	Online	In store	Online
Clothing & Accessories	£ 128	£ 130	£ 136	£ 144	£ 164	£ 180
Supermarkets & Groceries	£ 550	£ 931	£ 810	£ 1,715	£ 764	£ 1,354

Table 4: for 2019, 2020, and 2021 (including a prediction for August until December) the yearly spend a customer must make to be deemed loyal to a retailer. For example, in 2021 in the Supermarkets and Groceries category, a customer must spend £1,354 online to become loyal but only £764 in-store.

Ultimately, customer loyalty is harder to achieve for online retailers. Interestingly, for supermarkets, the customer annual value required in 2021, for both in-store and online, is lower than 2020 (but still higher than 2019); this could be a result of the lockdown – in 2020 there were fewer opportunities for discretionary spending, people spent more time at home, resulting in larger grocery spend.

We obtained some interesting perspectives from our panel of experts as to what might be driving this. Tom Peace, MD of The Loyalty People, a leading customer loyalty and CRM consultancy, said that “Shopper mind-sets when they are online is to either find an item fast or research for a cheaper alternative, simply because they can do so easily”. He noted that, by its nature, this is very different from an in-store shopping experience, where the product choice is more limited, the price is set and there is a real friction to moving between alternative stores. He says that “As a result, by nature online shoppers are more promiscuous and loyalty harder to achieve”.

When shopping online, users are more intentional in their shopping and more price sensitive. They know what they are looking for and so retailers see less incidental purchases. Therefore it's in line with my expectations that loyalty has decreased and undoubtedly the pandemic and lockdown has played the biggest role in this.



Jonathan De Mello
Equity Retail Partner at
CWM Retail Consulting

Continued...

As Pete Markey, CMO at Boots UK agreed with the findings here and commented, "Online is very competitive. People google to find products where they find hundreds of recommendations and this is where having a loyalty scheme really helps." Pete noted that it's important to differentiate and tailor the customer experience, "to gain customers and keep them." He added, "You've got to keep them for the long-term."

Jonathan De Mello, Equity Retail Partner at CWM Retail Consulting, agreed with Tom's assessment, saying, "Online shoppers... are more promiscuous, they search around more now, maybe because they had more time during lockdown". Jonathan De Mello also reflected on some of the other differences between the online and in-store shopping experience, saying: "When shopping online, users are more intentional in their shopping and more price sensitive. They know what they are looking for and so retailers see less incidental purchases."

Average Transaction Value	2019	2019	2020	2020	2021	2021
	In store	Online	In store	Online	In store	Online
Clothing & Accessories	£ 24	£ 46	£ 29	£ 46	£ 50	£ 62
Supermarkets & Groceries	£ 27	£ 81	£ 29	£ 92	£ 45	£ 135

Table 5: for 2019, 2020, and 2021 the average transaction value (ATV) for customers deemed as loyal to a retailer. For example, in 2021 in the Clothing and Accessories category, a loyal customer's ATV was £50 in-store and £62 online.

As shown in the table above, the average transaction value for loyal customers is consistently higher online than in-store. Nikhita Hyett, MD for Europe of a leading global online payment provider BlueSnap, works exclusively with online retailers and so had some real insights into the drivers behind a higher average transaction value (ATV) for online vs in-store purchases. She believes that "online, people spend more and therefore have a higher ATV, mostly due to returns & refunds as people often order two sizes to be safe and then send one back. However, in-store you'll see people spend less but more frequently".

She believes that for online retailers, true loyalty is driven by providing a seamless customer experience:"

I would suggest that in fact, loyalty is harder to acquire online, but if you get your customer experience right, then it should be easier to keep people loyal".

Adrian Swinscoe, a customer service and customer experience advisor, and author of Punk CX, reflects on some of the technical benefits that online retailers should be able to drive: "Online sales benefit from 'saving customer card details' and makes the buying process so much easier for customers".

Continued...

Jonathan Adrian also highlights an important point about the customer experience, which he estimates represents up to 40% of what drives customer loyalty and repeat purchase – What he calls the “issues resolution process”. Moreover, this is not just if a customer has an issue that they need resolving, but also their expectation that the retailer will be able to do the right thing and help the customer in the instance of an issue arising.

Specifically in relation to returns policies, Tessa Unsworth, former PPS executive, said that “Returns and return policies are also critical to keep in mind and affect how often a customer shops with a particular retailer”. She went on to provide specific examples of this saying, “people might buy Whistles clothing from John Lewis rather than from Whistles’ own website simply because they believe in better issue resolution”.

Martin Newman, an advisor on customer-centric transformation and consumer experience, believes that a key factor in all of this is trust. He states, “There is a trust component from having a physical retail space that impacts loyalty. Customers have inherent trust in a business with a physical shop, while ordering online requires that same baseline level of trust to be established, and exceeded”.

Based on this, Martin Newman believes that “future winning brands will have omni-channel approaches to work around this trust issue”. Providing a trusted omni-channel customer experience was something that Marcus East, Chief Digital Officer at T-Mobile, referred to as well. He noted, “M&S saw 60% of online orders with in-store pick up. These were great loyal customers, as they received an omni-channel experience”. He says that they have brought this thinking to T-Mobile as a business, saying “T-Mobile makes a point about the human experience in-store; everything is magenta, music is playing, employees high five customers when they come in, there are lots of smiles. Customers feel good”.

“Boots, like the grocers, remained open during lockdown so that helped”, commented Pete Markey, Chief Marketing Officer at Boots UK when considering this data, “but we did see a shift towards online.” Pete believes that consumers still need to become more confident online, but notes that, as they do, they tend to stick to online shopping. Reiterating an earlier point he said, “The need for differentiation is key. You’ve got to be able to cut through the noise that people will find when they google something. Building true loyalty is the only way to do this.”



Nikhita Hyett
Managing Director –
Europe at BlueSnap



Marcus East
Chief Digital Officer at
T-Mobile US | NED | Inves-
tor | BCS Fellow



Tessa Unsworth
Former Chief
Partnerships Officer
at PPS

Actionable Insights

Build on both spend and frequency data insight exercises done in the earlier chapters, but splitting the data between in-store and online spend.

What are the unique differences in your business between these two channels? How does it compare with the market average?

The Impact Of Coronavirus

Covid has affected customer loyalty

Any analysis of retail data over the last three years needs to investigate the impact of the coronavirus pandemic on consumer spending behaviour. There are, of course, clear first-order effects, such as significant increases in traffic and orders via ecommerce, and significant reductions in footfall to shopping centres and malls. At its worst, research from the [British Retail Consortium](#) shows that footfall to retail parks declined 67%.

Cheddar's unique insight into consumer spending behaviour gives a glimpse at the second-order effects of the pandemic. Given the granularity and richness of Open Banking data, we sought to understand what was happening to customer loyalty at an individual customer-level. We analysed the transition between loyalty levels (e.g. "not loyal" → loyal, or VVIP → VIP) and were also able to capture new customer acquisitions (not a customer → "not loyal") and the lapsing of existing customers (loyal → not a customer).

Category	2019-2020	2019-2020	2019-2020	2020-2021	2020-2021	2020-2021
	Decrease Loyalty	No Change	Increased Loyalty	Decrease Loyalty	No Change	Increased Loyalty
Clothing & Accessories	32%	26%	42%	51%	31%	18%
Coffee Shop	31%	31%	38%	39%	36%	25%
Department Stores	30%	33%	37%	44%	41%	14%
Fast Food	26%	39%	35%	38%	40%	22%
Health & Beauty	28%	30%	42%	49%	33%	18%
Supermarkets & Groceries	15%	52%	33%	26%	52%	22%
Category Average	27%	35%	38%	41%	39%	20%

Table 6: the percentage of customers who have either decreased their loyalty, increased their loyalty, or have not changed their loyalty between 2019 and 2020 and 2020 and 2021. For example, between 2019 and 2020, 33% of customers increased their loyalty to their supermarket, whereas between 2020 and 2021 only 18% of customers did.

The above table suggests, on average, 35% of customers did not shift their loyalty between 2019 and 2020; this number increases slightly to 39% if we consider the behaviour change post-pandemic, from 2020 to 2021. As might be expected, owing to the lack of options during the pandemic, 38% of customers have a perceived increase in loyalty between 2019 and 2020. However, as the world opens up and consumers have more choice again, we see a 41% decrease in loyalty between 2020 and 2021. In reality, this perceived increase or decrease in loyalty is likely a result of a lack of options during the pandemic; consumers weren't able to shop in-store and, with online delivery slots scarce, people likely shopped wherever they could to get what they needed.

Continued...

There are no standout categories that have managed to continue to increase customer loyalty post-pandemic, with all categories seeing a bigger decrease in loyalty rather than a gain. When looked at through this lens, we see a bigger reduction in loyalty owing to the fact that we are able to capture new customer acquisitions and, importantly in this case, customers lapsing with retailers as we ease out of the pandemic.

Thus, it is fair to say that customers are now less loyal than before the pandemic; this explains the increase year-on-year in the “loyalty tipping point,” requiring customers to spend more, and more frequently, to transition from being “not loyal” to loyal to a retailer.



Tanya Bowen, retail expert, former Director of CRM Loyalty and Clienteling at BT, said that she has “never seen this much of a shift in consumer spend behaviour before” and that the data “provides some really interesting insights into the impact of the pandemic on retail”. So we asked our expert panel of contributors to reflect on this, and suggest why this might be the case.



Tom Peace, MD of The Loyalty People, said that “the pandemic has clearly had an impact on retailer loyalty, that goes without saying, but it is worth noting that the significant deterioration in loyalty is largely due to lack of access & availability. I believe that this will go back to 2019 levels or at least taper down from 2021 levels seen in this report”.



Adrian Swinscoe, author of Punk CX, commented “I would expect consumer behaviour to stay online, though some spend will drift back into the stores, most of the pandemic changes will stay”. He notes the importance of habit and routine in consumer spending patterns, saying “‘Habituation’, or the cycle to build habits, is a process through which humans preserve mental capacity. With this in my mind we can see that new habits have been formed and so people will likely stick with these habits beyond the pandemic”.

‘Habituation’, or the cycle to build habits, is a process through which humans preserve mental capacity. With this in my mind we can see that new habits have been formed and so people will likely stick with these habits beyond the pandemic.



Adrian Swinscoe
Author of Punk CX

Continued...



Adrian Swinscoe also notes the disruptive nature of the pandemic not just on how people buy, and when they buy, but also what they buy. He says “people bought loungewear instead of business suits as working from home became the norm”. There were other winners and losers too: will likely stick with these habits beyond the pandemic”.

He stated that whilst some people “probably tried to cook more and buy fresh”, many more “would have then defaulted to just order in for ease”. He also notes that there are other factors that may have driven spending on food delivery services: “People had more disposable income due to less travel and commuting. This likely resulted in ‘buying up’ or ordering better quality food for a ‘treat’”.



Customer Experience expert Martin Newman also reflected on some of the psychological drivers for the changes in consumer spending habits driven by the pandemic. “People had more time to shop around during this time and they were bored with nothing to do, so they had time to just be curious. Working from home caused people to ‘nest’, focussing on making their environment comfortable with purchases in loungewear, DIY and furniture”.



Actionable Insights

The lockdowns have upset people's spending patterns and habits around the world. Smart Retailers will see this as an opportunity to set new habits.

Now is the time to act and invest heavily in customer loyalty, and lock in maximum customer lifetime value.

Category Breakdown

Utilising real customer spend data, not reported behaviour from market research, enables us to dig deeper into consumer spending behaviour. Whilst we are able to see retailer level insights, we have aggregated the results to look at loyalty at a category level. Within this section, we break this analysis down into the following categories:



Clothing and Accessories



Coffee Shops



Department Stores



Fast Food



Health and Beauty



Supermarkets and Groceries

Throughout this analysis, we also look for comment and opinion from our expert panel of contributors to provide analysis, insight and recommendations based on the data.

Health & Beauty

Customer Experience expert Martin Newman provided some expert insight into this category, saying that “Health & Beauty saw pent up demand, in beauty in particular, which resulted in a spend increase in Q2 21. The real tipping point for this category was when retail started to open up again post-restrictions and people began to spend in-store again”.

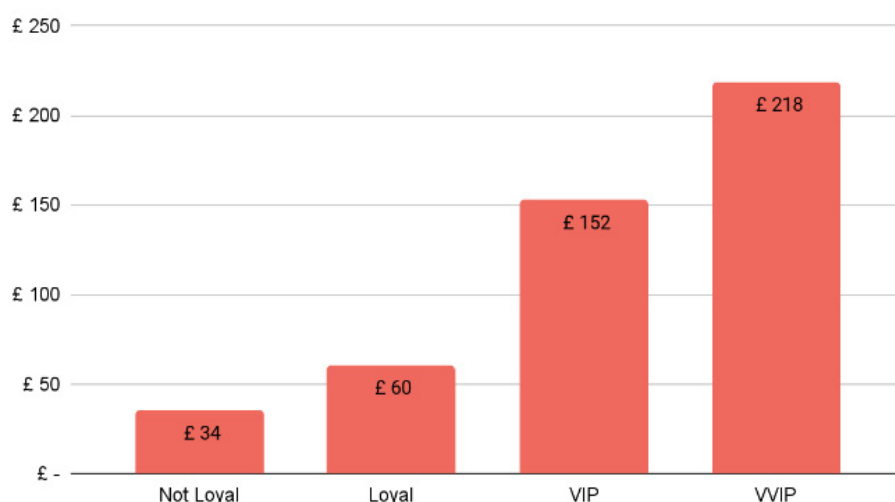


Figure 3: the 2019, 2020, and 2021 (including a prediction for August until December) average revenue obtained from each customer loyalty level for the Health and Beauty category. For example, if a person is “not loyal” they on average spend £34 per year, compared to someone who is VVIP who spends £218.

Tom Peace of The Loyalty People agreed with this, noting, “Within the health & beauty industry, it is expected that Beauty took a big knock in sales due to people buying less make up and going out less”. The future for the category has some uncertainty, in the opinion of Adrian Swinscoe, who believes that “working from home policies will reset demand levels away from 2019. Of the UK workforce, 60% could plausibly work from home. That’s a lot of demand that might reduce the demand levels in this vertical”.

Should Health and Beauty retailers start to see a drop in demand, instead of focussing solely on acquiring new customers, they should work to maximise their share of wallet of their existing customers. As the figure below shows, converting an existing customer who is not loyal into a VVIP customer yields six times as much revenue.

Case Study

To test the feasibility of acquiring both new customers and increasing a retailer's share of wallet, Cheddar ran a month-long 1% cashback campaign for an omni-channel Health and Beauty retailer. We were able to re-engage 10% of lapsed⁵ customers and acquire new customers to increase the active customer base by 14%. The campaign was sufficient to increase the average order value by 5% and drove an 11% increase in purchases⁶.

5. The definition of lapsed customer is a person who has not made a purchase in the last three months.

6. Results were compared to the month prior to the campaign..

Clothing & Accessories

The pandemic clearly had a significant impact on the Clothing and Accessories sector, as has been alluded to previously in this report. With lots of people working from home, nightclubs shut, and many Christmas parties cancelled in 2020, alongside limitations on trying garments on when stores were open, lead to a significant disruption in the clothing and fashion industry over the last 18 months. In addition, this is reflected in the data.

The data, shown below, in the words of retail expert Tanya Bowen gives a “goldmine” of insights. She expanded on why she thought that, saying “For a mid-range fashion apparel retailer I would normally expect consumers to be spending around £45–80 per quarter on clothing and accessories, just as the data shows was the average spend in 2019”. Given those kinds of spending levels, she would typically “classify those that spend £100 per quarter as VVIPs”. Clearly, there is some recalibration to be done for the rest of 2021 and 2022, in her mind, as “according to the data the impact of the pandemic on this industry was huge in terms of increasing spend to VVIP level on average”.

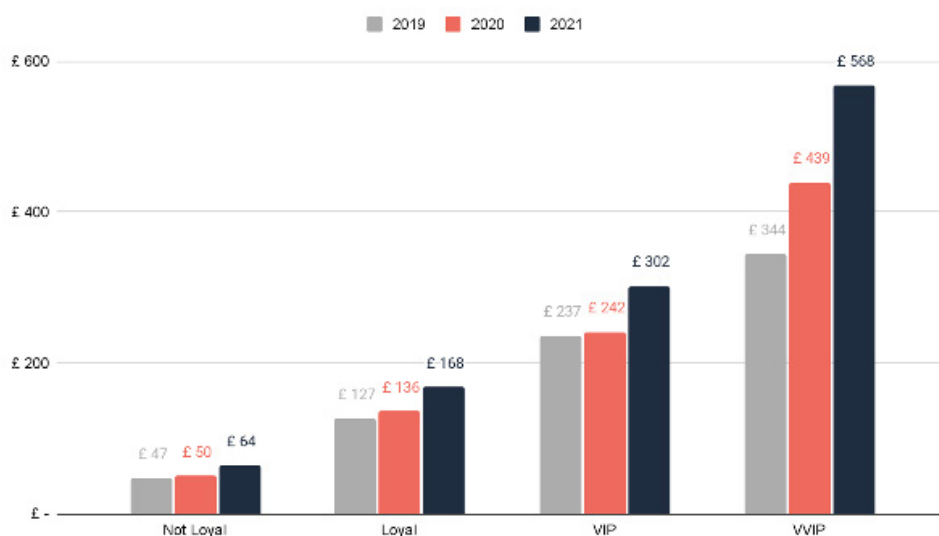


Figure 4: for 2019, 2020, and 2021 (including a prediction for Aug–Dec) the average spend in Clothing and Accessories for each loyalty level. For example, in 2021 VVIP customers spend £568 per year, compared to “not loyal” customers who spend only £64.

For a mid-range fashion apparel retailer, I would normally expect consumers to be spending around £45–80 per quarter on clothing and accessories, just as the data shows was the average spend in 2019.

I would then classify those that spend £100 per quarter as VVIPs. Yet now in 2021, according to the data the impact of the pandemic on this industry was huge in terms of increasing spend to VVIP level on average. The pandemic data here is a potential goldmine for insights.



Tanya Bowen
Chief Digital Officer at
NED

Continued...

We sought opinions about what could be driving this change. Tom Peace of The Loyalty People believes that within ecommerce we're seeing "more and more free shipping offers if spending is over a certain transaction value;" this has the effect of driving up the average order value. Nikhita Hyett from global payments business BlueSnap also explains the higher average order value in a market where significantly more transactions are happening online because "online people spend more, mostly due to returns and refunds as people often order two sizes to be safe and then send one back".

Marcus East, former M&S Global Digital Director, said that the "data from the fashion industry doesn't surprise me". He believes that "this is consistent with the impact we expected from lockdown.

People needed to reset their wardrobes. Working from home; returning to work; social interactions changing – all required wardrobes to adjust and possibly change permanently". The permanent change to people's habits and wardrobes is a theme that was picked up by Tom Peace:

"Of course, some elements will never go back to the way it was due to some of the online innovations, improvement in delivery services and product selection changes already happening. For example, fast fashion became addicted to blasting discount offers out to users pre-lockdown; this has changed to pushing fewer offers, but ones that are far more relevant and I suspect this will continue".



Case Study

To understand the impact of relevant, hyper-targeted campaigns, Cheddar ran a variable amount cashback campaign for an online fashion retailer. Prior to the campaign 72% of customers had not made a purchase in the last three months; an initial 5% cashback campaign increased the active customer base by 24%.

For a targeted selection of customers, we boosted the cashback to 10%, which resulted in an increase in average order value by 19% from £27 to £32. Following the boost, the original 5% cashback offer was sufficient to keep the average order value 15% higher than before campaigns started, at £31.

Hospitality & Food Services

Few can argue that one of the big winners of the pandemic era have been the food delivery services – Just Eat, Uber Eats and Deliveroo in particular. Unsurprisingly, our data tells this story too; across all loyalty levels the average transaction value was highest in 2020.

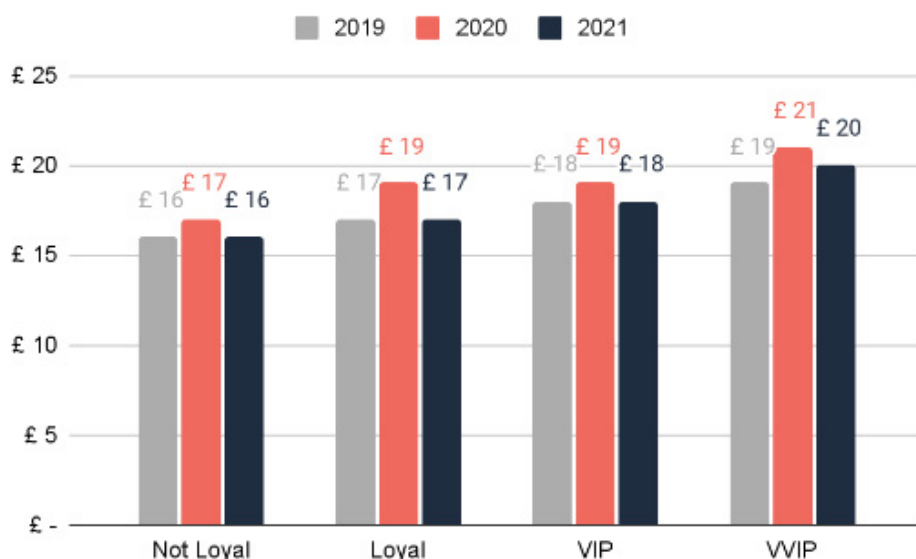


Figure 5: the average transaction value for food delivery companies during 2019, 2020, and 2021 (including a prediction for August until December).

Commenting on the data, CWM Retail Consulting's Jonathan De Mello said, "Food delivery saw a significant increase, including drive through services – especially as this has gone from single worker purchases to purchases for the whole family".

Adrian Swinscoe stated that whilst some people "probably tried to cook more and buy fresh", many more "would have then defaulted to just order in for ease". He also notes that there are other factors that may have driven spending on food delivery services: "People had more disposable income due to less travel and commuting; this likely resulted in 'buying up' or ordering better quality food for a 'treat'".

Martin Newman, customer experience expert, noted that "the customer experience of these first purchases was critical to future loyalty. If customers had to wait a long time or if food arrived cold, it would put people off the service altogether.

Case Study

Indeed, an Cheddar experiment saw that during the pandemic a 5% cashback offer was sufficient for app customers to treat food delivery services as a staple, rather than a treat. The behaviour change was discovered by seeing, in addition to a 12% increase in active user base⁷, that the campaign drove an 18% increase in monthly spend resulting from more frequent transactions.

7. The definition of lapsed customer is a person who has not made a purchase in the last three months.

Supermarkets & Groceries

Whilst greater demand was placed on supermarkets and grocery stores than ever before, as they moved to become part of the essential services fabric of the UK, they also face some of the biggest challenges to create loyal customers in 2021.

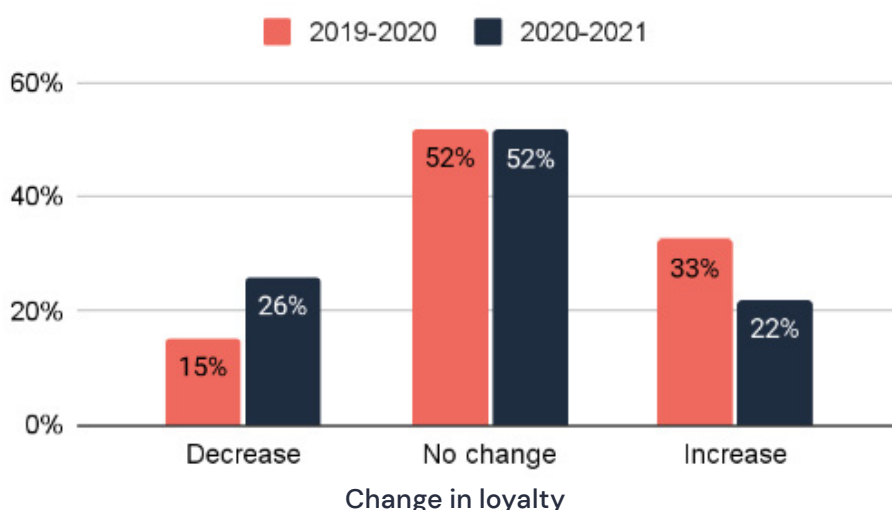


Figure 6: the percentage of customers who have shifted in loyalty from 2019 to 2020 and from 2020 to 2021.

As the figure above suggests, 52% of customers shifted their loyalty between 2019 and 2021. From 2019 to 2020, we saw more customers increasing their loyalty to retailers, whereas from 2020 to 2021 we are seeing a greater shift away from loyalty.

We had some excellent insights from Tessa Unsworth to try to explain the trends we are seeing here. She stated that whilst “the shift in loyalty of supermarkets between 2019 and 2021 is most surprising”, there are factors that could explain it:

“A significant shift in customer behaviour could be driven by a number of factors such as;

1. Supply chain issues – customers couldn’t get a delivery slot and so bought from anyone with availability
2. With online purchasing the “distance to store” issue of the past disappeared completely
3. Many grocers had really bad brand experiences in 2020 – in the way they handled the lockdown and covid requirements in-store or on their online assets – this would have led to consumer shifts”

Continued...

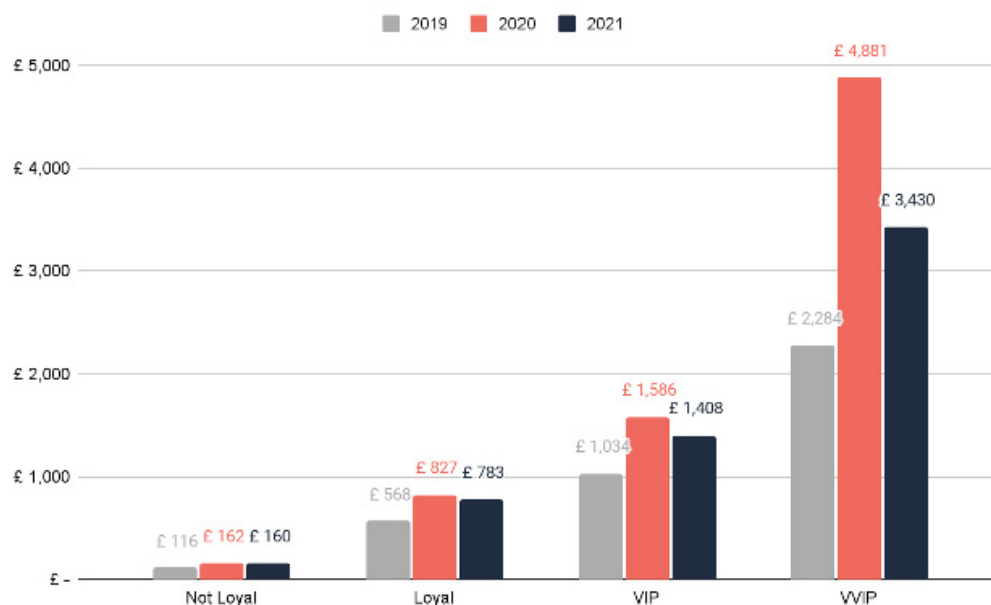


Figure 7: 2019, 2020, and 2021 (including a prediction for Aug-Dec) total spend per year in the Supermarkets and Groceries category for each loyalty level.

Commenting on the figure above, which shows an increase in yearly spend for all loyalty levels in 2020, Customer Experience expert Martin Newman stated that “the impact to loyalty shown in Cheddar’s data to grocery stores and supermarkets is as expected”. He believes that one of the factors driving higher spending was that “people opted for better grade products as a way to ‘treat themselves’ during lockdown”.

T-Mobile’s Marcus East believes that consumer habits, and therefore loyalty to particular retailers fundamentally changed over this period as they became focused on what he calls “needs must”.

He goes on to say, “They changed their shopping habits and behaviours because their mind-sets also changed. For example, in the past customers hadn’t wanted to buy groceries online because they didn’t believe they were getting the freshest ingredients, but this is no longer the case.”

Case Study

To understand if it was possible to drive an increase in revenue in 2021, similar to that seen in 2020, Cheddar ran a 1% cashback campaign with a discount supermarket. The offer was sufficient to increase the active user base by 45%, acquiring new customers in addition to re-engaging lapsed customers⁸ to increase the active user base by 45%. A 1% discount was also sufficient to increase the average order value by 14%⁹.

8. The definition of lapsed customer is a person who has not made a purchase in the last three months.

9. The comparison was made considering the same time period prior to the campaign start..

Department Stores



Department stores have seen the biggest negative shift in customer loyalty across the pandemic, more than any other sector. On one hand, this is a continuation of a trend that we were already seeing before the pandemic. Customer buying habits and customer loyalty have changed, and the department store experience runs counter to the trends of out of town shopping centres, specialty retailers and increased shopping online. On the other hand, the trends seemed to accelerate significantly during the pandemic, to the extent that there may be more to explain this than the underlying, existing trends.

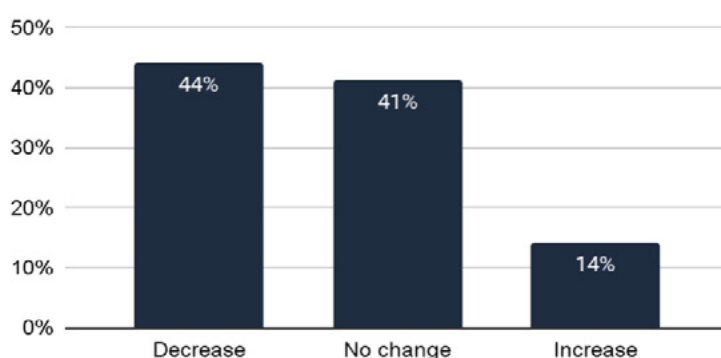


Figure 8: department store customer's shift in loyalty between 2020 and 2021.

Again, Tessa Unsworth provided some excellent insights into what could be driving the trends that we're seeing. She stated, "People spent more time on their own high streets as movement radiuses collapsed". Furthermore, she notes that for the major department stores located in metropolitan parts of the UK, things were even worse. "No international travel meant that the London market collapsed."

More than one of the commentators we spoke to noted that department stores were already experiencing a range of challenges, which the pandemic exacerbated, and these are shown in the loyalty data that we looked at. Adrian Swinscoe said that "we already know that department stores have struggled for years to stand out. Selfridges, John Lewis and Harvey Nichols have all suffered.

They tried to differentiate by offering a 'personal service' layer, but that requires a face-to-face experience to really be effective".

Customer Experience expert Martin Newman also looked at the challenges facing department stores, highlighting "the main challenge is product selection". He went on to say that "physical stores like this can never compete with Amazon on selection, the only way out is to become a more specialist department store". He believes that the only way for Department stores to survive is to "pick a niche and focus on it".

Tessa Unsworth provided some excellent insight into the logistical challenges for department stores of seeing this kind of basket value to drive loyalty. She states that for "in-store retailers there is a practical problem for customers: How much can they carry? People can only buy and carry so much which is why we're seeing new trends emerging such as shopping in-store but getting it delivered to your home".

Case Study

In 2020, as department stores were feeling the impact of the pandemic, Cheddar ran a 2% cashback campaign with an omni-channel department store with a large food offering. Prior to the campaign, 37% of customers had not shopped in the last three months; the campaign was successful in increasing the active user base by 35% by acquiring new customers and re-engaging lapsed customers. The campaign also drove a 12% increase in average order value, when compared to the months prior to the campaign.

The Qualitative Nature Of Loyalty

Five Traits That Retailers & Brands Need to Aspire To

Insight by Martin Newman

Customer Experience Expert

Martin Newman adds that in addition to the hard numbers and trends discussed above, there is a set of qualitative traits that Retailers and Brands need to consider when thinking about customer loyalty and customer value.

“It might be 2021, however, most consumer-facing businesses still look at ‘the cost to serve customers’ rather than the benefit. They do not focus on building and maximising customer lifetime value. They are almost always obsessed with customer acquisition.

While every business must strive to bring on new customers, making more effort to retain existing customers is where the real value lies. According to the Harvard Business Review, a 5% increase in retention leads to a 25% to 95% increase in profitability. In other words, give customers reasons to keep coming back and your business will be far more profitable – common sense really. Which makes it all the more peculiar that this is not the number one priority for all consumer-facing businesses.

Given the lack of effort to build relationships with customers from so many – you could argue customers have not been given many reasons to be loyal to one brand over another. Interestingly, I’ve even heard industry luminaries say that ‘loyalty is dead.’

However, my contention is that loyalty never really existed and if it did, it was largely down to a lack of consumer choice before the age of the internet.

Continued...

The birth of ecommerce in 1994 began the proliferation of choice that consumers have today and therefore the democratisation of retail, with the power shifting from retailer to consumer. Despite this, and as demonstrated in my book, *The Power of Customer Experience*, and on my mini MBA in customer centricity www.martinnewman.co.uk/mba there is a direct correlation between brands who are customer centric and their commercial performance over a sustained period of time, compared to those which are not.

One of the best examples of a brand that failed due to lack of customer centricity is Blockbuster Video. They weren't close enough to their customers to see how their wants, needs and behaviour was changing. They didn't see on demand TV coming or the shift to purchasing online. They also turned down the opportunity to acquire Netflix for \$50m!

The COVID-19 pandemic has had a huge impact upon every sector that serves consumers. It has also had a big impact on how we as consumers feel about the brands we engage with and give our money to. What a brand stands for, it's values and purpose, have become just as important as the products they sell and how much they sell them for."



Martin Newman
Customer Experience
Expert

**Taking this into consideration,
here are the top five traits that
we've identified in brands who are
commercially successful and truly
customer centric...**



1. People First

You can't be truly customer centric if you aren't people centric and don't put your own people at the heart of all you do.

- Customer centric brands have great cultures. They have a more collaborative environment, offer career progression opportunities, they empower colleagues, offer learning and development, and have a genuine purpose to do good at their heart
- They never penalize failure, moreover they celebrate it as an opportunity to test and learn and to improve what they do and how they do it
- Their people are trusted to make decisions for customers, which delivers better experiences for them and a stronger commercial outcome
- People first businesses retain their staff for longer and deliver better commercials
- There are many examples of businesses that do this well. With their share price up more than 160% over the past five years, Home Depot in the DIY space in North America walk the talk
- From empowering their front-line workers to offer customers discounts of up to \$50 to secure a sale to supporting them in times of financial hardship. They put their people first at every turn.



2. Social & Environmental Responsibility

Too many brands are doing the minimum and paying lip service to sustainability and social responsibility.

- Yet consumers are moving towards conscious consumption and therefore every consumer-facing business needs to understand that this directly impacts customer's expectations of their behaviour
- The exemplars of social responsibility include a number of outdoor brands. None more so than Patagonia. A brand with a clear purpose that puts environmental causes at the heart of their focus and supporting many related causes has endeared them to an extremely loyal customer base
- The effect of which saw them nearly double their sales over a 5-year period between 2012 and 2017 to around \$1bn per annum.



3. Diversity & Inclusion

If our business is selling to consumers, can we really expect to be as successful as we could be if our own people at different levels don't represent the communities we're serving?

Whether that's our colleagues on the front-line serving customers or the board and executive team making decisions that affect the products sold, the channels available, marketing communications, pricing and customer service, if they are too far removed from the customer base, how can they be expected to make the best decisions?

Imagine the opportunity presented by having a member of the board who could be a voice for the needs of disabled customers. There are 14 million disabled consumers in the UK. I can tell you from interviewing many consumers with a range of disabilities from visual and hearing impairment to various forms of physical disability that their needs are extremely poorly catered for.

With support groups for employees from BAME communities (Black, Asian and Minority Ethnic) to running a Rainbow Network for LGBT+ employees, Diageo is an organisation who walk the talk when it comes to diversity and inclusion. They have a significant female representation in the boardroom with 44% of the board being female. They have a similar target for female representation of 40% on its global leadership team by 2025.

Diageo's focus on being a diverse business has seen them achieve considerable recognition from having the strongest female representation at board level of the FTSE 100 biggest businesses in 2018 to being ranked 2nd in the Thomson Reuters Disability and inclusion Index in 2019. As a disability confident Company they are focussed on recruiting and retaining disabled people and those with health conditions. In the past 5 years, their share price has increased by over 65%.



4. Turning Customers Into Fans

A customer tends to have a functional relationship with a brand whereby a fan has an emotional one.

- Brands who seek to be customer centric can deepen both the emotional and rational attachment to their brand with the former often driven by the brand's purpose, values and culture and the latter by great product, customer service and experience
- With their share price now more than 3 times that of Ford, General Motors and VW put together, Tesla is a great example of a brand who delivers on both emotional and rational elements. They have democratised the car buying experience by taking their products to where customers are. In shopping centres as opposed to big out of town sheds. And as the early adopters in electric vehicles, customers have a strong emotional attachment to the brand.



5. Measure The Right Things

Consumer businesses are obsessed with performance metrics while not paying nearly enough attention to the inputs that drive the KPIs in the first place.

- Conversion rates, average order values, units per transaction, footfall, traffic and pageviews to name but a few. None of these can explain why we're performing the way we are. This is simply data, it does not deliver insight
- If we want to improve our performance then the inputs are far more important. These include customer satisfaction (CSAT), net promoter scores (NPS), the availability of product, first time resolution of customer service issues and so on. What we really need to understand is why are operational KPIs up or down? Only the right inputs can help to answer that and for us to take corrective actions
- From Hotel Chocolat to Timpson, from Patagonia to Tesla, from Amazon to AO.com, all those brands who are commercially successful year after year after year, are truly customer centric. That is their point of difference when you compare them to their competitive set. They are people first businesses, with great cultures, purpose at their heart and customer obsessed
- And this manifests itself in their relentless focus on driving customer lifetime value and turning customers into fans.

Sign up now for Martin Newman's [mini MBA in Customer Centricity](#) and you can put in place the building blocks for short and longer-term growth that will see you become a truly customer-centric business just as those highlighted above.

Key Takeaways

This white paper, 'The Tipping Point of Loyalty', investigated consumer loyalty across several categories using Open Banking data.

Having conducted an in-depth analysis into consumer spending behaviour from 2019 until summer 2021, we are able to offer a unique perspective into customer loyalty; one that is based on actual behaviour, rather than that reported in surveys.

- 1** The 'tipping point of loyalty' is lucky number 13: On average you need to get a consumer to spend with you 13 times per year to become loyal.
- 2** Your most loyal customers are worth up to 22x your non-loyal customers: Focus more on moving customers up the loyalty levels than acquiring new customers.
- 3** Having shifted online during the pandemic, our data indicates that consumers will return to in-store shopping for groceries with fashion retaining an online focus.
- 4** The pandemic obliterated customer loyalty and, as our analysis suggests, in 2021 it is now more difficult to make customers loyal than it was in 2019.
- 5** The best retailers will use an understanding of a customer's entire wallet, not just how they spend with them, and use it to personalise the customer's experience.

Recommendations

Based on the above key takeaways and the wider data analysis of actual spend behaviour discussed in the report, Cheddar makes the following recommendations for retailers and marketing professionals:

- 1 Focus on Actionable Data:**
Avoid debates about “big data” or “small data”. Focus on data that is accurate and predictive, like Open Banking data. Ensure that you can take direct action to improve sales from the data that you use.
- 2 Maximise Existing Customers:**
Incentivise your existing customers to move up the loyalty levels: Not loyal > loyal > VIP > VVIP.
- 3 Attract the Right New Customers:**
The ‘right’ customer is worth 20x more than the ‘wrong’ customer. Attract customers that have potential to become VVIPs.
- 4 Think Value:**
Know your CAV (customer annual value) / CLTV (customer lifetime value) at the individual customer level.
- 5 Act now!**
Consumer spending habits are shifting and changing. Now is the time to lock in maximum CLTV for your business.

Get In Touch...



George Greaves

Head of Partnerships

george@cheddar.me



Tariq Zaid

CEO

tariq@cheddar.me



cheddar

