



Redefining customer loyalty: Beyond the points

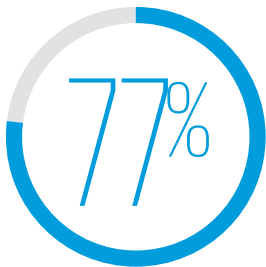
What loyalty really means in today's fast-paced world,
and what retailers can do to build it.



Redefining loyalty



I am likely to recommend it to my friends and family



I buy from the company because I want to, not because I need to

When we think of the phrase *customer loyalty*, what often springs to mind is the concept of *loyalty programs* – the cards, clubs, points, rewards, and the myriad of other incentives that retailers put in place to try to keep customers coming back.

But while loyalty programs play a big role in bringing customers through the door (whether a real or a virtual one), they're only a piece of the puzzle.

A program-based discount or reward creates a single transaction, not a long-term relationship. If a retailer has to continually offer discounts or promotions to earn customers, they'll ultimately find themselves in a race to the bottom.

To truly build long-term relationships with customers, retailers should consider a much broader definition of loyalty, one that goes well beyond points and cards. A truly loyal customer is one who will choose a brand even when there's no promotion available, who will keep coming back again and again without needing to be explicitly rewarded for it. They're the customer who will advocate for a brand and recommend it to friends and family, spreading their passion by word of mouth.

But don't take our word for it: this broader definition comes directly from customers. Among the Canadian respondents in KPMG International's *The truth about customer loyalty* survey, a large majority strongly agreed or agreed that they define loyalty as "I am likely to recommend it to my friends and family" (88 percent) and "I buy from the company because I want to, not because I need to" (77 percent).

“This study is about what it takes to get customers to come back again and again. When we say ‘loyalty,’ we often hear ‘points,’ but building loyalty goes far beyond the card. Your loyalty program is just one of many levers you can pull.,”

— **Kostya Polyakov**
Canadian National
Industry Leader,
Consumer & Retail



What drives loyalty among Canadian customers?

With this new, broader definition of loyalty in mind, what is it that drives loyalty among Canadian customers? First of all, according to the survey, many customers ranked some fairly predictable elements as very or extremely important in keeping them loyal: product quality (74 percent), product consistency (71 percent), and value for money (60 percent).

Interestingly, Canadians are not easily swayed by what other people think, and much less so than customers in the rest of the world. Only 13 percent said “popularity on social media” was very or extremely important to their loyalty to a brand, compared with 24 percent of global respondents. Similarly, 14 percent and 17 percent selected “endorsed by my favourite influencers” and “popularity with my friends and family,” respectively (versus 23 and 27 percent globally).

Responses along these lines have been reflected in previous KPMG research, such as *Me, my life, my wallet*, our in-depth look at consumer behaviour released in 2018. It showed that Canadians tend to take a fairly pragmatic approach to their retail decisions. Only 13 percent of Canadians in the report said they were interested in the latest cool thing or technology (compared to around 50 percent of shoppers in India). Canadians lean instead to purchases that improve their day-to-day lives.

Something new: Social Responsibility

“We are starting to see customers caring deeply about ethical, sustainable practices. They want to shop with retailers who treat their employees well, who use real people in their ads, who have a strong environmental record. More and more, people are making values-based purchasing decisions. This is a trend retailers need to pay attention to.”

— **Katie Bolla**
Partner,
Customer and Digital

There’s another aspect of a retail that’s emerging as an important driver of Canadian loyalty: a brand’s *purpose*. For the first time this year, nearly 60 percent of Canadian respondents indicated that it’s important, very important, or extremely important to them that a company be “committed to sustainability/environment.”

This is not something retailers should ignore, at any level of their business. Customers want a values-based connection with their retailers.

It’s not enough to create a lofty mission statement; today’s consumers care that brands treat their employees well, source sustainable materials through equitable means, use environmentally progressive manufacturing processes, and more. Socially responsible retailers are the way of the future, and retailers that don’t do their part may find themselves left behind.



What about loyalty programs?

Loyalty programs do have a place. Forty percent of Canadians said that loyalty points and rewards were very or extremely important to keeping them loyal to their favourite retailers.

The average Canadian shopper participates in up to five different loyalty programs, so it's not a lost art. But running a loyalty program costs money, and it only drives short-term behaviour.

The point to remember is that a loyalty program is a basic requirement, not an advanced technique. You need to have one, because your competitors have one, but building loyalty can't stop there. Use the program to drive the initial transaction and earn the permission to start building longer-term relationships. The goal should be points-free loyalty: relationships so strong that customers would come back even if the program no longer existed.

Even more important than driving transactions is a loyalty program's capacity to capture customer data. Its biggest value lies in providing information that you will then use to target an optimal customer experience.

“A loyalty program is only the first step to building a deeper, more meaningful, longer-term relationship with customers. Retailers risk missing the opportunity to convert transactions to points-free relationships, so strong that customers would come back even if the program no longer existed – that's true loyalty.,,

— **Katie Bolla**
Partner,
Customer and Digital



What it really comes down to: connection

Fifty-seven percent of respondents agreed or strongly agreed that a “strong personal connection with the company” helps to ensure their loyalty. Ultimately, as retailers begin to define loyalty in this new broader, beyond-the-points way, they need to build real, resonant connections with their customers and create a shopping experience that keeps them coming back.

Based on years of research, KPMG in Canada’s [Six Pillars of customer experience excellence](#) have been proven again and again to be the most important levers for building those strong connections.

This latest survey’s responses reflect strong affiliation with the pillars, which further substantiates the value of the model:



Personalization: 57% of Canadians expect that as a loyal customer, they should receive special or personalized treatment.



Integrity: 62% say that the ability to trust the company with their personal information and purchase history data is a very or extremely important driver of their loyalty.



Expectations: 66% believe that product consistency is extremely or very important in keeping them loyal.



Resolution: 65% of respondents say customer service is an extremely or very important driver of their loyalty.



Time and effort: 51% believe that an easy shopping experience is an extremely or very important factor in earning their loyalty.



Empathy: 57% of respondents agree or strongly agree that loyalty comes from feeling “a strong personal connection with the company.”

How to build loyalty beyond the points

So, how do retailers build true customer loyalty? Here we offer three important steps. No, they're not easy, but they're absolutely critical in today's competitive world.

1. Gather data to really understand your customer.

The first step is to build a deeper, broader view of your customer's behaviours and perceptions. It may sound simple, but there's a huge variation across retailers in how much they are gathering and using data to get inside their customers' heads and hearts. The multi-dimensional [framework](#) in KPMG's *Me, my Canadian life, my wallet* research can help you understand what drives customers and how they make trade-offs between their motivations, attention, connections, wallets, and watches across industries.

Think you know your customer already? Think you know them inside and out? Look again, and look often. Embrace the idea that there's information out there that you don't yet have, and then go seek it. Customer preferences are constantly changing. Use data, not intuition, and keep reassessing.

2. Use that data to derive insight.

Too many retailers are drowning in unused, un-analyzed data, because they haven't put the necessary technical and analytic capabilities in place to handle it.

Data itself has no power until it's used to develop insights. Smart retailers not only build a system through which they gather customer data, they also build teams who can interpret the data in meaningful ways and in a timely manner. The organization that can quickly produce valuable analytical insights based on up-to-date data will win every time.



“A lot of organizations assume that customer-related topics (experience design, brand promise, brand loyalty) are the exclusive purview of the front office. But to truly deliver an exceptional customer experience, you need to make sure that the whole organization is working in lockstep. You can't create loyalty just by hiring a really smooth-talking customer service rep. You have to create a seamless experience for the customer: design the right products, have enough on the shelves, price the right way, and deliver them how, when, and where customers want them...It's an organizational issue.,,

— **Katie Bolla**
Partner,
Customer and Digital

3. Build an organization that acts on it.

Even insights on their own mean nothing if they aren't acted upon. To capitalize on what the insights are showing, retail organizations must embed analytics into their decision-making across the board. Teams should be structured so that they can adapt quickly whenever the data suggests a need.

Rather than offering a product and working to entice customers to buy it using points and rewards, smart retailers will get a firm grasp on their customers' needs, motivations, and behaviours, and create an experience that speaks specifically to them. To do that, they must have the infrastructure in place to create a seamless, engaging, convenient, easy customer experience that reflects what the data suggests.

The way your customers experience your brand touches every part of your organization, not just sales, marketing, and service. If a customer values product selection and availability, for example, that's directly affected by your supply chain. Your newfound customer understanding should influence all areas of your business – purchasing, people practices, product development, and innovation. If customers value convenience, then you may need flexible payment technology and options – this is linked to financial systems and reporting. The entire company should be working together as a connected enterprise, driven by analytical insights, with strategy connected to operations and to the back office, and every step in between.

Points-free loyalty

Why do retailers want to build customer loyalty? At its most basic level, loyalty drives purchases (and hopefully it drives word of mouth, which drives purchases from others). No retailer wants to continually offer deep discounts or rewards, so why make that your primary focus? A loyalty program can be valuable in that it can create the permission to start building the relationship, and extremely valuable in that it is often one of the primary sources of customer data. But it's time for retailers to look beyond the points, to start using their customer data to create real connections and build long-term, loyal customer relationships.

KPMG can help

Loyalty is difficult to win and easy to lose.

Today's successful businesses recognize the need to become truly customer centric throughout the organization by connecting their front, middle, and back offices. Companies need to understand how to strike the right balance between what customers expect and what makes sense financially. KPMG in Canada professionals can help you achieve profitable, sustainable growth through customer-centric thinking, while delivering winning customer experiences suited to the digital age.



About the survey

KPMG International commissioned Phronesis Partners to conduct an online survey of 18,520 consumers in more than 20 countries on their thoughts around consumer loyalty.

The survey was conducted in September and October 2019, and it included 876 Canadian respondents across generations (35 percent Millennials, 36 percent Generation X, 20 percent Baby Boomers, and 5 percent in each of Generation Z and the Silent Generation) and genders (59 percent female, 41 percent male).

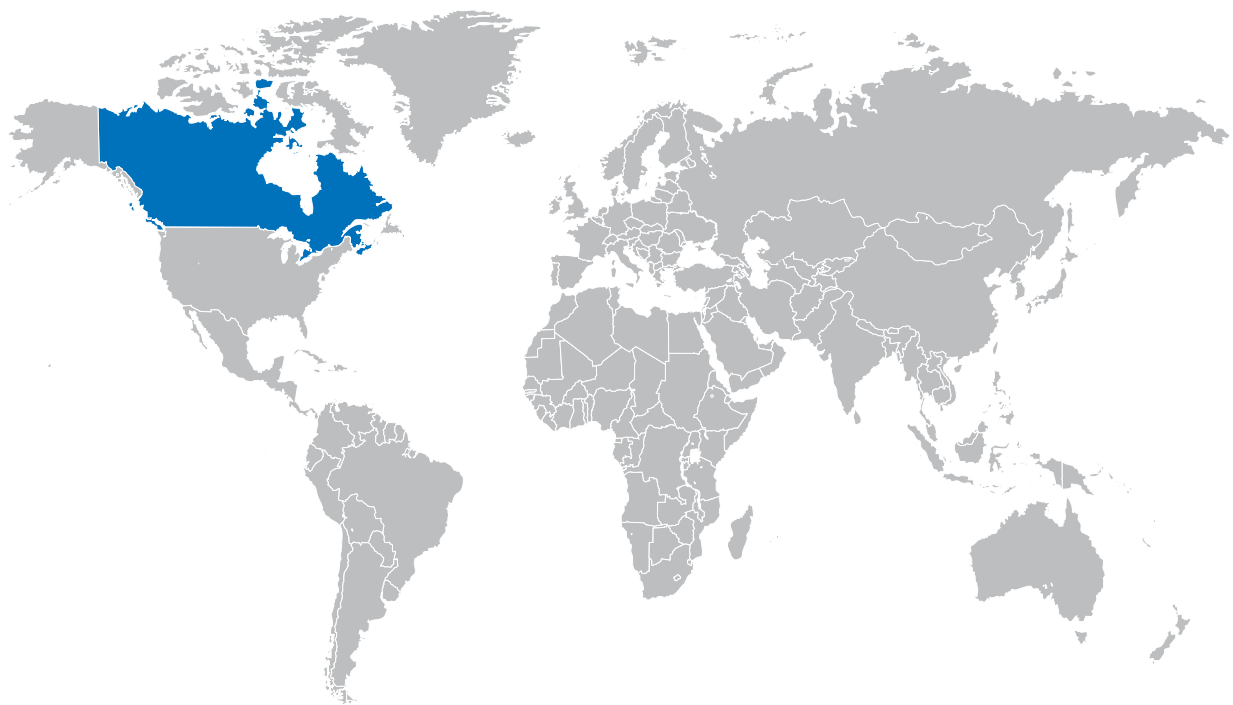
We can help you understand what your customers need – and transform the way your organization delivers value by:

- Assessing which markets are right, prioritizing the customers that have the most potential, and creating personalized offers or products that meet their needs completely and simply
- Creating compelling customer experiences that create differentiation and unlock value
- Digitally enabling and realigning the front, middle, and back office to be more customer centric
- Rethinking customer data and creating actionable insights that drive profitable growth

Together, we help you develop and deliver seamless personal customer experiences that drive engagement, satisfaction, and loyalty – and profitable growth.



How are Canadians different?



62% of Canadians are loyal to at least one specific food/beverage/grocery brand, compared with 51% globally.



33% of Canadians say that a company being innovative is an extremely or very important factor in their loyalty to a product brand, versus 43% globally.



Only 23% of Canadians say that "prestige/status" is an extremely or very important factor in their loyalty to a retailer, versus 38% globally.



48% of Canadians said that "use of technology to enhance experience" is an important, very important, or extremely important factor in their loyalty, versus 60% globally.



89% of Canadians are enrolled in 1–10 loyalty programs, versus 74% globally.



56% of Canadians make purchases that earn rewards/benefits under a loyalty program daily or up to few times a week (versus 41% of global respondents).



Only 23% of Canadians say that "discounts or special pricing" is one of their most valued loyalty program benefits, compared with 44% of global respondents.



36% of Canadians strongly or somewhat agree that they are a member of too many loyalty programs, versus 48% globally.

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