

Making the connection: rethinking the role of loyalty management

A framework for loyalty in a dynamic
and diverse Asian marketplace

August 2014

KPMG
cutting through complexity



Study conducted for the Coca-Cola Retailing Research Council Asia by KPMG

Coca-Cola Retailing Research Council of Asia

The Coca-Cola Retailing Research Council (CCRRC) is a group of visionary professionals from leading companies around the globe participating as council members to identify important issues and opportunities in the grocery and convenience retail sector. The council has been established to conduct relevant research and encourage broad public dissemination of findings.

www.ccrro.org

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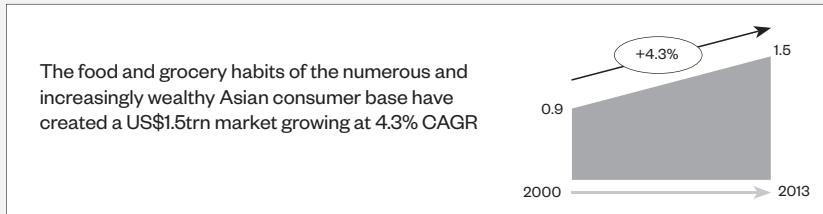
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The Asian food and grocery consumer is fast evolving and more diverse than in any other region in the world. This diversity and pace of change is a moving target for retailers, creating an imperative to stay ahead or at least keep pace with their target customers.

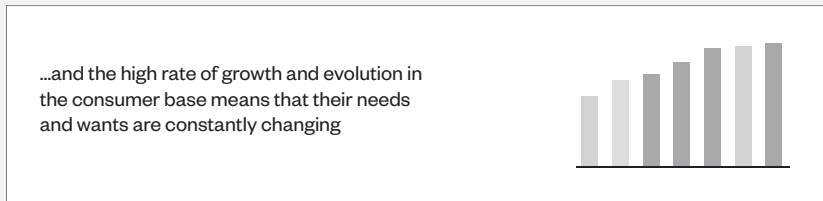
This complex situation raises the question – How can Asian food and grocery retailers keep pace and improve relevance with their most valuable customers?

The answer – By shifting the role of loyalty management from a marketing and promotions tool to the main way the retailer adapts its retail offer to its most valuable customers.



However, there is no such thing as 'one' Pan-Asian consumer...

- Convenience driven
- Premium seeking affluence
- Consumer consciousness
- Dominance of the value segment



As markets develop, competition is increasing from both local and international players providing the consumer with greater choice

Retailers must constantly adapt and refine their offer in order to keep pace with the evolving consumer and stay ahead of the competition

This is prompting retailers to consider the most effective means of engaging and retaining their high value customers

The Asian food and grocery consumer is fast evolving and more diverse than any other region in the world

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This diversity and pace of change is a 'moving target' for retailers; creating an imperative to stay ahead or at least keep pace with their target customers

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How can Asian food and grocery retailers keep pace and improve relevance with their most valuable customers?

Page 19

By shifting the role of loyalty management from a marketing and promotions tool to the main way the retailer adapts its retail offer to its most valuable customers

Build a broad, cross-functional understanding that loyalty management is the tool to adapt the retail offer by continually engaging, evaluating and adapting the offer to the target customers

Page 35


Tailor and enhance your loyalty management function by focusing on the most relevant capabilities to your retail operation

Page 45

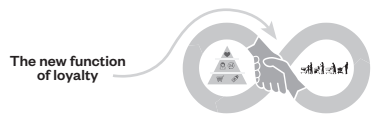
Plan your implementation strategy through a series of small steps, moving from your own starting point towards your desired end-state prioritising for early momentum and greatest return

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All retailers develop an overall offer – their value proposition – to target customers; executed through differing mixes of five levers




Loyalty management can evolve to become the tool to refine and tighten this offer by ensuring cross functional alignment in engaging, evaluating and adjusting the offer



The majority of Asian grocery retailers have begun to develop an approach to customer loyalty based on 'earn and burn' programs without understanding the returns on their investments

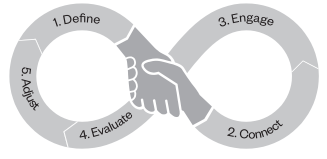


88% of organisations run an 'earn and burn' based loyalty program whereby points are accrued and redeemed for a gift



6% actively leverage their loyalty program to achieve specific corporate objectives

Retailers can gain greater understanding of the role of their loyalty management function can fulfill by considering seven questions



- 1 How well do you need to know your customer?
- 2 How diverse is your customer base and how much tailoring of your value proposition is required to address these different segments?
- 3 Do you understand which customers are most valuable to achieving your organisation's goals?
- 4 Do you have clear goals for improving your value to customers? And are these supported by structured programs/initiatives?
- 5 Can you measure the return you get from these initiatives and are these benefits sustainable?
- 6 How integrated and co-ordinated are the customer touch points across your organisation?
- 7 Do you know what your customers think of you? Do you have processes to continuously adapt and refine your proposition in response to these thoughts?

However, different retailers will have varied goals, focuses and operating constraints




Market Format Offer Channels Operations Scale


Therefore, Retailers need to tailor these capabilities around the specific characteristics of their retail operations




Retailers need to perform a self-appraisal of their current capability level relative to their desired end state in order to understand the scale of change



Implementation of a loyalty management function requires a degree of experimentation; retailers need to break-down their change journey into a series of small steps to evolve effectively



Create early momentum and develop an implementation strategy by prioritising based on both the benefits for both your customers and your organisation





USA
White Peach
329290
\$11.80
/ 100g

France
Red Plums
28171
\$7.80
/ 100g

USA
Yellow Nectarine
329290
\$11.80
/ 100g

France
Green Grapes
28171
\$13.80
/ 100g

USA
White Nectarine
329290
\$11.80
/ 100g

***Making the connection* is the result of a KPMG study for the Coca-Cola Retailing Research Council of Asia, aimed at helping Asian food and grocery retailers tackle the challenge of customer loyalty**

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The CCRRCA set out to help retailers tackle customer loyalty in Asia, engaging KPMG to assist in conducting the research...

The Coca-Cola Retailing Research Council is composed of seven councils each with a geographic focus. This study has been produced under the guidance of the Asian council. While The Coca-Cola Company supports these endeavours, all research is conducted independently of the Coca-Cola system and executed under the oversight of each council on behalf of the industry.

This study began life as a series of round-table conversations between a group of Asian food and grocery executives known as the Coca-Cola Retailing Research Council of Asia (CORROCA). They were keen to explore how their peers across the region are tackling customer loyalty.

These discussions gave rise to an initial research brief: How can retailers create greater customer loyalty by identifying and caring for their top 20% of customers

In response to this brief, KPMG was engaged to conduct a study of the region.

...KPMG worked with 27 retailers to understand the market and organisational dynamics associated with customer loyalty...

Over fifty in-depth one-on-one interviews were conducted covering:

- Three retail formats: hypermarket, supermarket and convenience
- 13 countries including: Australia, China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Vietnam
- 27 food and grocery organisations and their executives including:
 - 20 Presidents, CEOs and Managing Directors
 - 16 Marketing Directors/Customer Strategy Executives
 - 6 Retail Operations Managers
 - 10 Store Managers

...and has produced this report as a tool to help retailers rethink the way they approach customer loyalty in Asia

The result has been this report, ***Making the connection: rethinking the role of loyalty management***, a framework for loyalty in a dynamic and diverse Asian marketplace.

This paper outlines the evolution of loyalty practices across the region, including the market conditions retailers are working in and the various manifestations of loyalty programs.

We have framed our findings in a maturity model for loyalty management. Aimed at helping you, as a retailer, understand your current capabilities and the actions you can take to improve the effectiveness of loyalty management within your organisation.

... based on over 50 interviews covering 13 countries, 27 Organisations, 20 Presidents, CEOs and Managing Directors; 16 Marketing Directors and Customer Strategy Executives; 6 Retail Operations Managers; 10 Area and Store Managers



Thank you

The creation of this study and its insights would not have been possible without the co-operation and openness of these organisations, their executives and staff.

The Coca-Cola Retail Research Council and KPMG would like to thank all of the organisations and individuals who took the time to participate in this study.

Sincerely,

Mark Batenic
Chairman

Coca-Cola Retail
Research Council Asia

Anthony Freeling
Research Director

Coca-Cola Retail
Research Council Asia

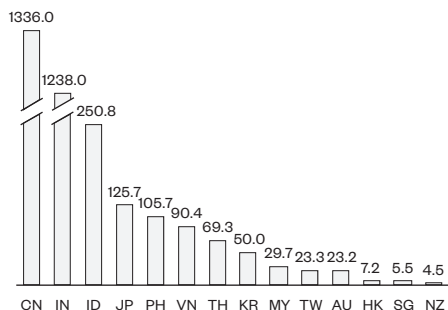


**The Asian food and grocery consumer
is fast evolving and more diverse
than in any other region in the world**

The food and grocery habits of the large and increasingly wealthy Asian consumer base have created a US\$1.5trn market growing at 4.3% CAGR

With a population of 4.3bn and a new consumer being born every second...

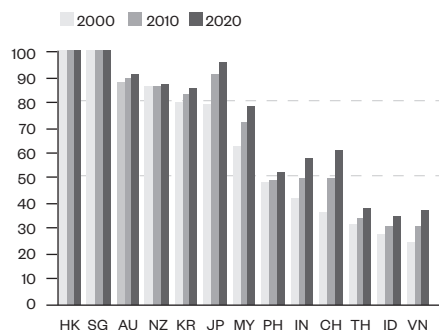
Population (m, 2013)



Source: United Nations, 2014

...in an increasingly urbanised environment...

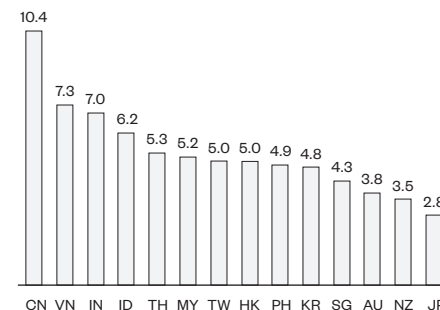
Urbanization growth (2000-2020, % of pop.)



Source: United Nations, 2014

...and a growing level of affluence...

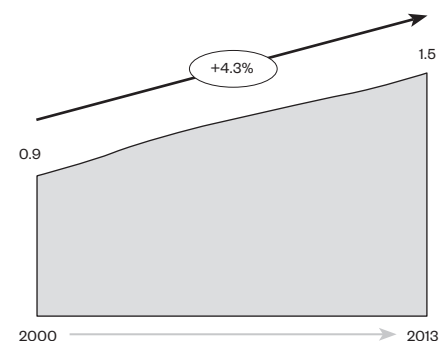
GDP per capita growth (2000-17e, CAGR%)



Source: Economic Intelligence Unit, 2014

...the Asian Food and Grocery market is worth US\$1.5trn growing at 4.3%

Asian food and grocery market size (US\$tn)



Source: Euromonitor International 2014

With some 61% of the world's population (4.3 billion people)^(2a) and an annual growth rate that consistently exceeds that of the Americas, Europe and Africa combined, retailers have long recognised that Asia has significant unlocked potential to be the key driver of global consumer growth in the 21st century.

A number of socio-economic indicators underpin the ongoing increase in retail consumption within Asian society. One such driver of 'the population as potential consumers' is urbanisation. The Asian population has experienced the highest rate of urbanisation globally since the 1970s.^(2b) With more than half of today's Asian population living in urban areas, this trend is fuelling the addressable consumer market for grocery retailers.

A second driver of retail consumption is increasing affluence, as illustrated by growth in GDP rates, Asia Pacific GDP per capita grew by c.150% in the 12 years to 2012 – exceeding both the global average (c.100%) and mature markets such as the UK (c.55%) and US (c.42%).^(3a) This has translated into an increase in both the size and income of the Asian middle class. In 2000, Asia Pacific hosted less than 20% of the world's middle class; by 2009 its share grew to approximately 28% and by 2020 it is expected to almost double again, fuelling increased consumer expenditure.^(6a)

Even within Asia, the size and growth of the market opportunity for retailers is diverse. Countries such as Australia, Singapore, Japan and Korea

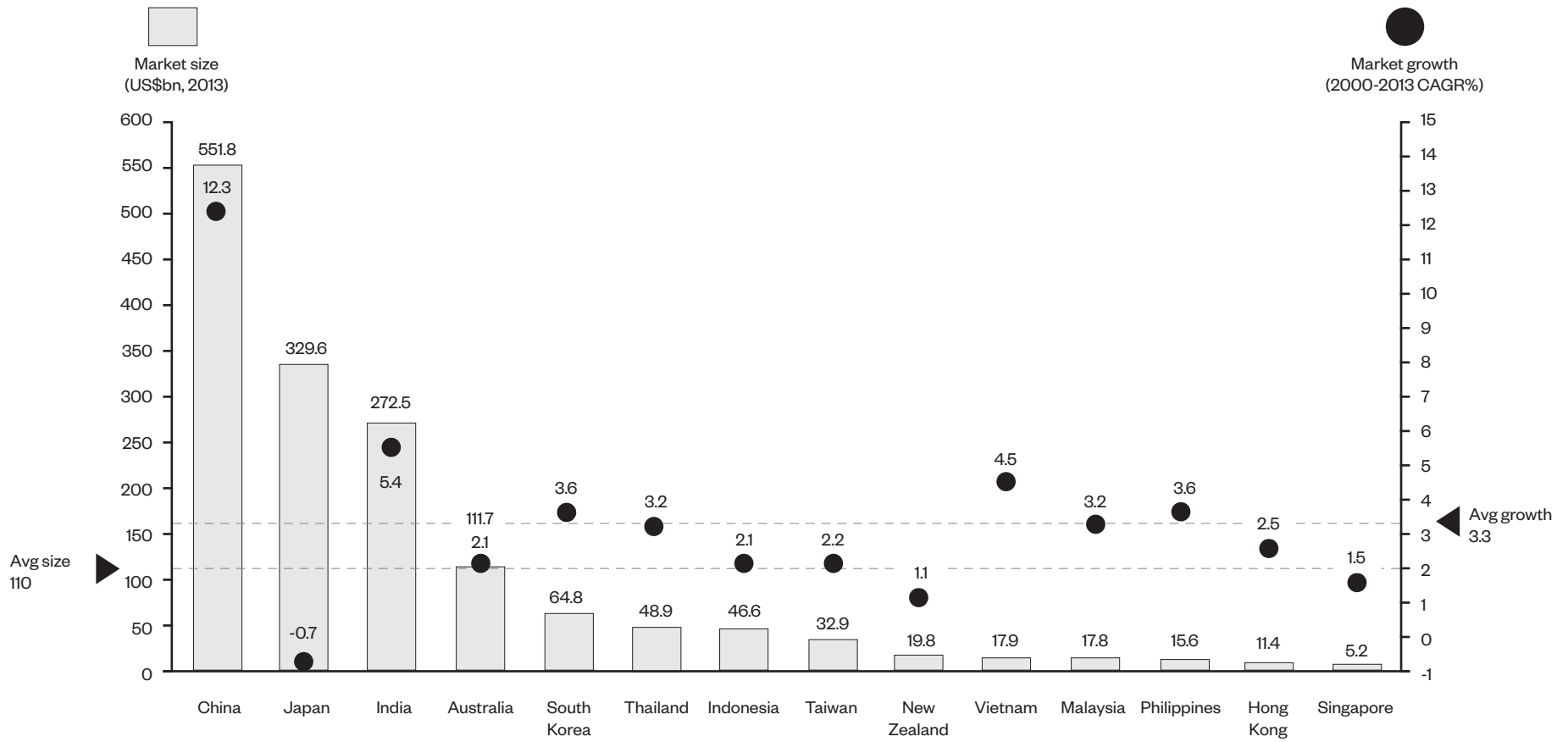
have larger GDP per capita and larger average basket sizes. Conversely, emerging economies such as Indonesia and Vietnam are experiencing faster growth rates (350%)^(3a), albeit from a lower base.

With a new consumer being born in the region almost every second and personal disposable income growing at 135% since 2000, total retail sales across the region are c.US\$6.4tr^(3a), of which the food and grocery market accounted for c.US\$1.5tr (23%).^(4a)

The growth outlook for the region remains positive as local consumers are forecast to collectively spend 47% more on retail than they do today through 2017.^(3a)

While there are notable variations in local norms and customers, and differing market sizes and growth rates across the region, the scale and pace of change in the Asian retail market makes it an intensely competitive market, both for regional players seeking scale and international players seeking market entry.

Food and grocery market size (2013) and growth (2000-2013) by country^(4a)

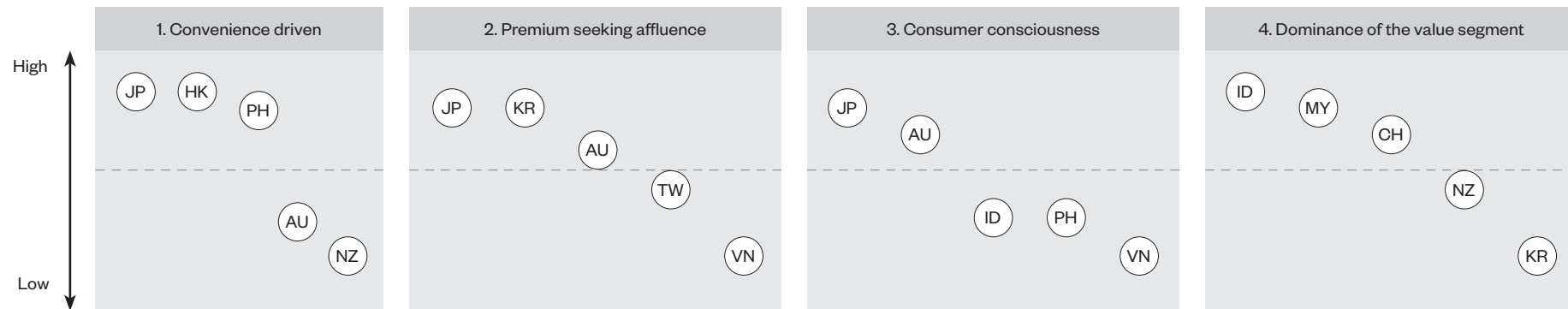


Note: 1) Data reflects all grocery retailers including convenience stores, discounters, forecourt retailers, hypermarkets, supermarkets, food/drink/tobacco specialists and independent small grocers; 2) CAGR: Compound Annual Growth Rate

Source: Euromonitor International 2014

However, there is no such thing as 'one' pan-Asian consumer

Example trend prevalence by country



In addition to economic factors underpinning growth and technology driven changes in consumer behaviour, other demographic trends influence the nature of consumption. A rise in the working women population, the growing number of single households and dual-income families, an aging demographic (for example in Japan) and longer work hours are examples of trends that influence retail consumption patterns. While some segments in Asian markets increasingly engage and shop in a similar manner to their western counterparts, there are still segments where the population shops for food much as it did several decades ago.

1. Convenience for the busy connected shopper

Rising per capita income, a faster-paced lifestyle and the shift to smaller households is supporting consumers' demands for a less time-consuming and more efficient shopping experience. This is affecting:

a) the choice of retail format – with evident increase in visit frequency for everyday items, retailers chose to increase the number of their convenience stores across the region. In addition, new innovative formats that leverage technological advances to save consumers time are emerging. Homeplus, for example, has introduced a virtual grocery store in a South Korea subway station, enabling busy office workers to shop using their phone while they wait for the train;⁽⁷⁾ and

b) demand for packaged food products – which is expected to continue to grow. To accommodate to this trend, Family Mart and 7-Eleven, for example, the leading convenience store franchise chains in Taiwan, have been aggressively expanding their offerings of ready-to-eat food items (including prepared meals and fresh fruit). Both of these retailers are also improving production processes and the production output of ready-to-eat items.⁽⁷⁾

2. Affluent consumers seeking premium

Interviews with retailers in the more established countries suggest increased average basket sizes and growing interest in key premium categories. The imported goods category is growing in certain regional pockets as a result. For example, retailer Dairy Farm highlights the growing demand for imported meat and dairy products from areas such as Australia and New Zealand in its city-based locations across the region.

3. The conscious consumer

With the emergence of modern media and growing education levels, consumer awareness around health, social and environmental issues has increased considerably. To meet this need, retailers are tailoring their marketing campaigns around these areas, and some have developed new types of specialised stores. Singapore-based NTUC FairPrice, for example, has introduced 'Fair Price Finest' supermarket, a format which specialises

in a finer assortment of products such as organic food and beverage at good prices. The company now has 16 Finest stores across the country and is also actively involved in following environment sustainability practices in its operations.^(1b & 7)

4. The value-driven consumer

Whilst there has been a rise of the middle class across parts of Asia; higher rates of consumer price increases across the developing economies in the region, such as those in India (97.7% over 2000-2013), Thailand (36.5%) and Malaysia (30.7%)^(3a), have contributed to creating a value conscious consumer that is seeking to increasingly economise its food and grocery spend.

However, while in developed economies this has shifted customer focus to promotions and discount schemes, some consumers in developed counties have been shrinking their total spend, and focusing only on the necessities.

The high rate of growth and evolution in the consumer base means that their needs and wants are constantly changing

Why is your food and grocery market unique?



Genk Gurol
VP, CEO, e-Commerce
AEON Co., Ltd.
Japan

“The major shifts (urbanisation, connectivity, aging) are happening in Japan ahead of the rest of Asia and in fact most of the world. In a way the new global retail environment and the latest retail innovation is well represented here.”



Rakesh Biyani
Joint Managing Director
Future Retail Group
India

“India is a country of communities; preferences are linked to your community. Within a city, food assortment could vary by 15-25% within 20kms between two stores.”



Piper Chiu
President
Simple Mart
Taiwan

“Ten thousand convenience stores, 1,000 supermarkets and 100 hypermarkets servicing a 22m population has led to over competition and a constant price war in Taiwan.”



Jose Victor Paterno
President and CEO
Philippine Seven Corporation
Philippines

“Micro-retail is extremely prevalent in the Philippines, which ties in with a consumer preference for buying small single use packets.”



Hans Prawira Anggara
Managing Director
Alfamart
Indonesia

“Poor infrastructure and traffic is driving consumer demand for local mini-marts as the destination for groceries, not just top ups. This has significant supply chain challenges to service across the archipelago.”

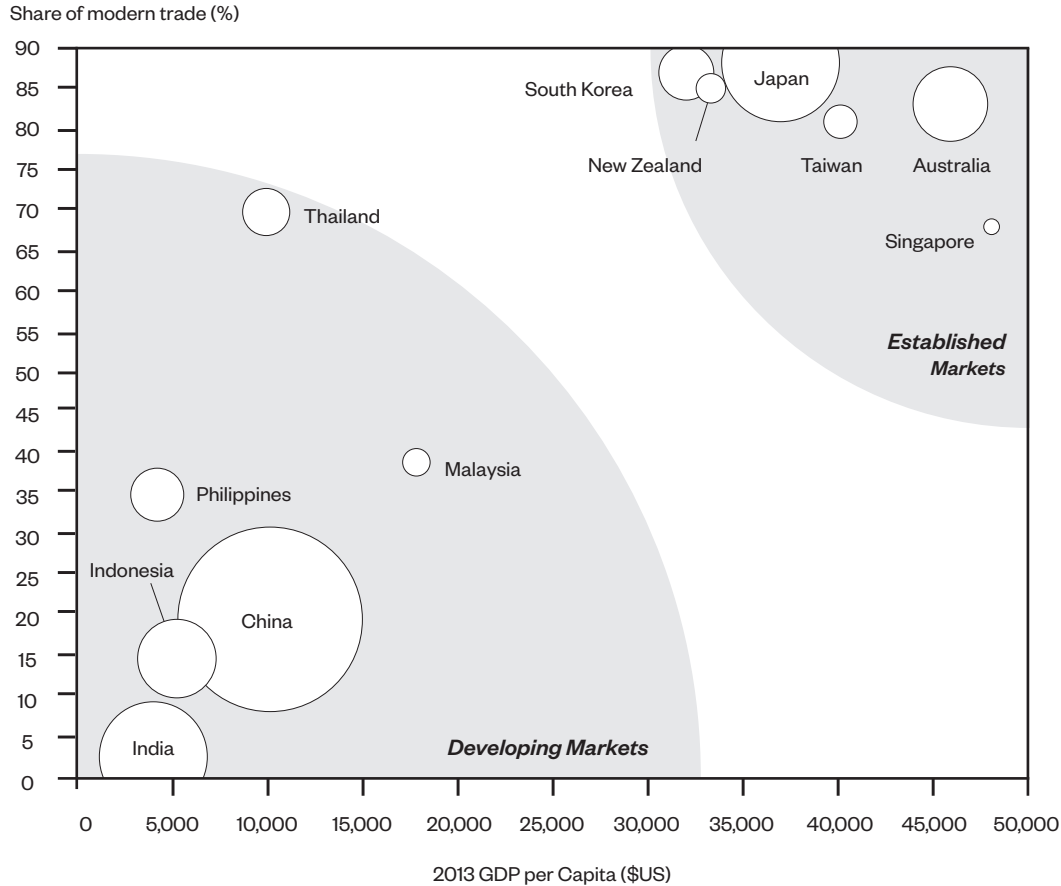
Source: KPMG interview program



**This diversity and pace of change is a
'moving target' for retailers, creating an imperative
to stay ahead or at least keep pace
with their target customers**

As markets develop, retailers need to find ways to continue to keep relevance with their high value customers

GDP per capita (2013) vs. Organised Food and Grocery Trade Size indicates relative market size (US\$ as at 2013)



Source: 1. Economic Intelligence Unit; 2. Euromonitor; 3. KPMG analysis

As markets develop, competition is increasing from both local and international players, providing the consumer with greater choice...

At US\$1.5trn and growing, the last few years have seen the rapid establishment and expansion of the modern trade across Asia. Locally established chains are expanding their footprints at significant rates with a number of interviewees explaining plans to open over one hundred stores per annum.

There is undoubtedly appetite from the multi-national players too, with the likes of Walmart and Tesco establishing presences throughout the region.

In addition to traditional competition, the rate of technology adoption across the region has also led to online and multi-channel retailing becoming increasingly prevalent. Examples include the success of Yi Hao Dian, reaching RMB11.5bn in sales,^(1b) and international players such as Amazon in Japan holding 0.6% market share^(4b) of total food and grocery sales and doubling its share over the last four years. Traditional food and grocery players are also taking advantage, as evident in the case of AEON, which has successfully grown its online sales 56% from 2011 to 2013 and is currently continuing to grow by over 30% per year.^(1b)

...retailers must constantly adapt and refine their offer in order to keep pace with the evolving consumer and stay ahead of the competition...

For pan-Asian retailers, the diversity of the region necessitates a degree of operational discipline and sophistication to ensure their offer is relevant to their target customer segment in each country of operation. Examples of major retailers that have faced this challenge in expanding across Asia, are Dairy Farm and Japan's Aeon. For some major international retailers wishing to capture a share of this growing market, and despite their proven processes and models, this has resulted in a need to team up with a local partner to leverage their insights into local market norms (e.g. Tesco's now wholly-owned Homeplus).

...this is prompting retailers to consider the most effective means of engaging and retaining their high value customers

Retailers are now seeking to invest in tools and capabilities that will enable them to better understand and target customer segments.

However, with the rapid growth of modern trade and the notion of customer loyalty only beginning to emerge in the region, these retailers first have to understand which investments will be the most effective for their organisation.

What makes retaining customers so difficult in your market?



Genk Gurol
VP, CEO, e-Commerce
AEON Co., Ltd.
Japan

“The economic environment has shifted consumer needs to a whole new level. The challenge is to move with the customer and understand them better in this dynamic environment and to redefine loyalty.”



Piper Chiu
President
Simple Mart
Taiwan

“There is no loyalty in our market yet, customers are easy to sway on price. The customer still thinks that cash back is the best loyalty program.”



Jose Victor Paterno
President and CEO
Philippine Seven Corporation
Philippines

“Our lack of experience in analytics makes it difficult to understand and address the differences in each market across the region.”



Hans Prawira Anggara
Managing Director
Alfamart
Indonesia

“While we have access to data, we do not have the tools, resources or capability to translate the data into insights.”

Source: KPMG interview program



Marketplace cultures – a common frontline observation

“A few months ago, I was visiting our operations in mainland China. While on a site visit to a local provincial store, a middle-aged lady walks in – she had her shopping cart with her and it was already a quarter full of groceries she had purchased at another retailer.

She looked around our store, picked up a few handfuls of items, went to the register and paid for them. She put the goods into the shopping cart and went down the road a few blocks into our competitor’s store and repeated the process.

Curious, I went up to the lady and asked her why she spread her weekly shopping over so many different grocery stores. Her response was interesting and enlightening, particularly for someone who hadn’t grown up in the region. She told me that this process would save her the equivalent of US\$5, so in order to save five dollars she was walking a total radius of about 5km. This struck me as quite a strange behaviour coming as I do from a Western culture where customers typically do their weekly shop in one store and perhaps top-ups at convenience stores.

Heading back to our store, the store manager explained to me that until recent years, all food and grocery shopping had been conducted at the local market, and that customers were used to going from stall to stall to hunt for the best value. He went on to explain that while the outlets had changed to modern supermarkets, the customer behaviour had not yet caught up and that his customers still shopped at all the local outlets in search of value.”

President, large supermarket chain

A VIP service standard at AEON Group in Japan

With the average Japanese consumer being affluent, educated, time and space poor, greater proportions of food and grocery spend are shifting to non-store channels. In 2012, 10.7% of the Japanese food and grocery market came from non-store retailing.^(1b)

As a result, competition in the Japanese grocery market shifted beyond the pure price comparison. The differentiator for keeping a customer loyal moved to the experience –getting the customer to enjoy the overall shopping experience. Learning from high-service orientated industries such as airlines and hotels, AEON developed and implemented in-store lounges similar to those found in airports.

Access to the lounge is restricted to those customers obtaining member status, which requires either a shareholder status with over 100 shares or AEON Credit Card Gold, which is obtained through frequent visits and/or higher yearly purchase limits. Lounge access provides customers with a place to relax and consider their purchases, with free drinks, snacks, complimentary internet access and press to read.

Customers are ensured their visit to AEON is comfortable and stress-free. AEON sees lounges as a step in providing a greater service proposition, with plans in place for greater staff 'expert' training to help customers make informed purchasing decisions in such product categories such as wine, bikes, and drugs / pharmacy, financial services including loans, insurance or banking at dedicated corners, health and medical centers and broader concierge assistance to aid customers in whatever service products they might need.

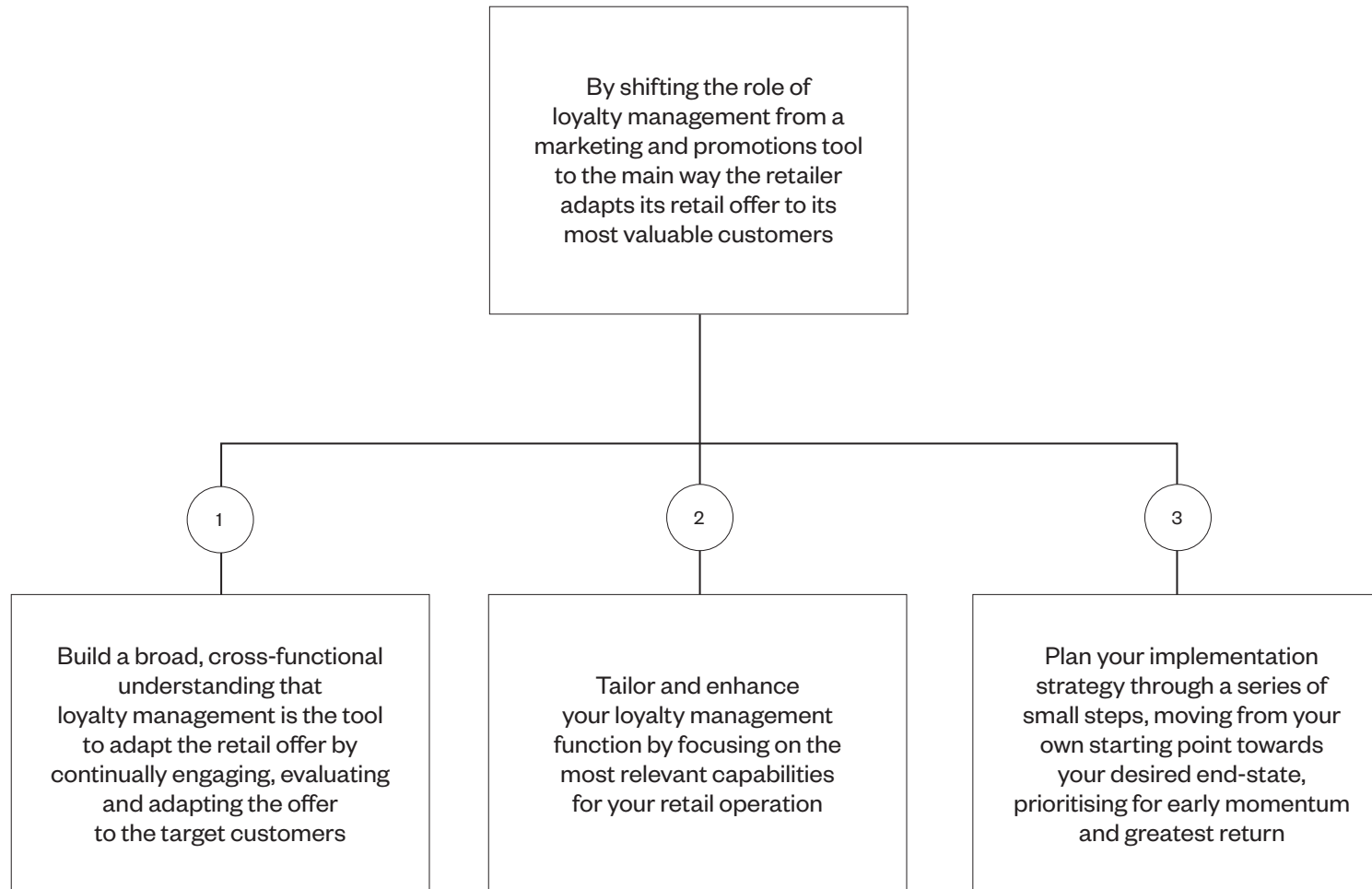


**How can Asian food and grocery retailers
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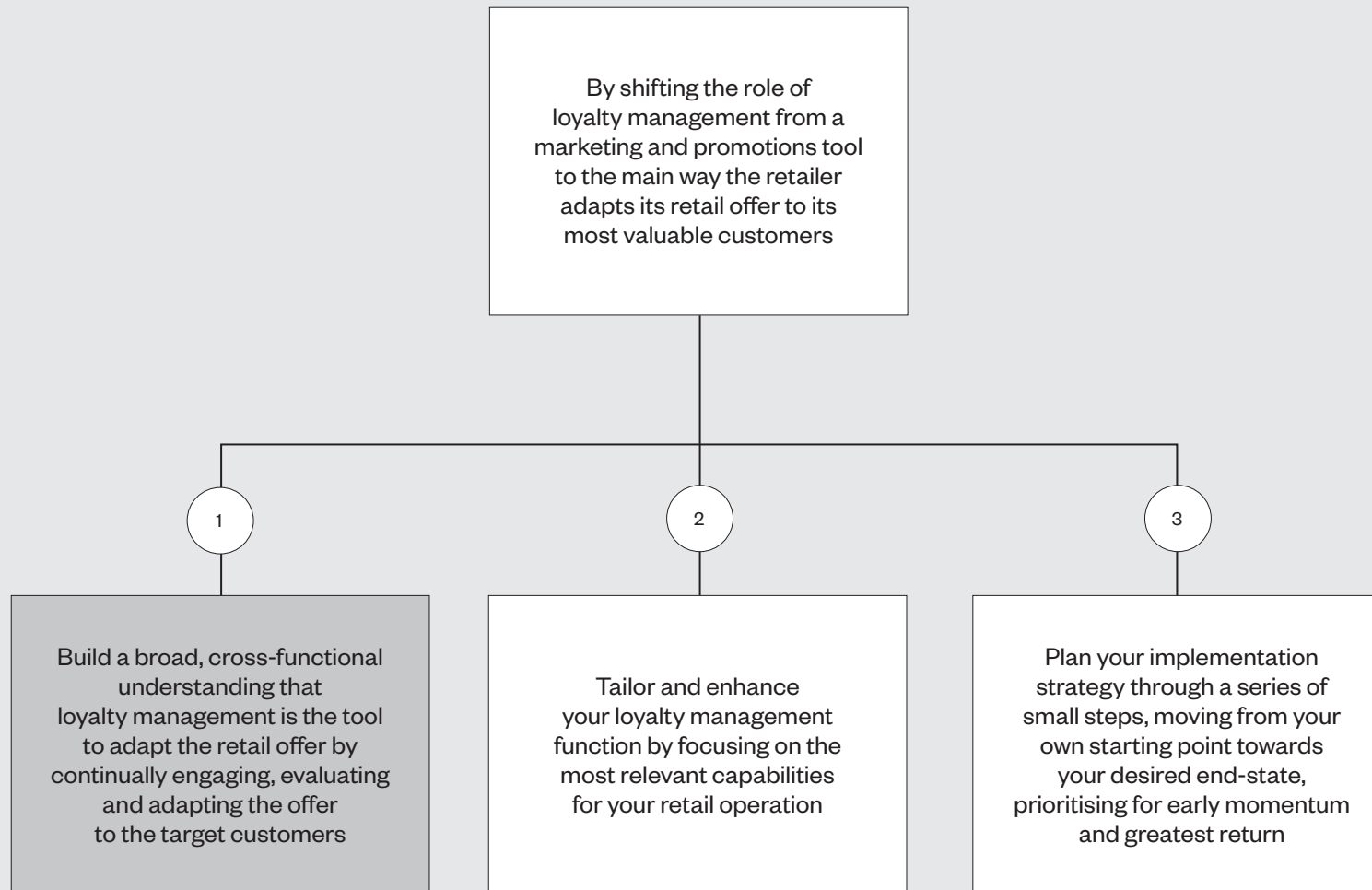
**By shifting the role of loyalty management
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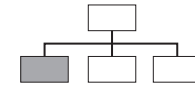
Retailers must do three things in order to evolve their loyalty management function from a marketing and promotion tool into a mechanism to refine and adapt their retail offer







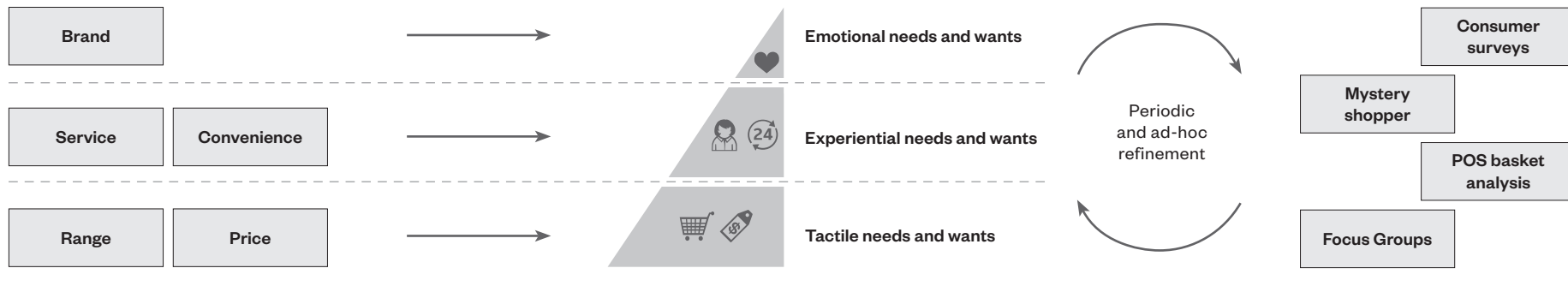
All retailers develop an overall offer — their value proposition — to target customers, using different mixes of five levers traditionally refined through market research



A retailer's value proposition can be articulated through five key levers

To create and maintain loyalty the retailer must configure their offer in alignment with the needs of the target customer

Traditionally this has been through ad-hoc or periodic activities such as market research



It is essential to understand the levers a retailer has available to them. There are five levers available in developing a holistic value proposition: range, price, service, convenience and brand. From a consumer perspective, these can be likened to a hierarchy of needs and can be arranged accordingly.

1. Tactile level

In the first instance, the tactile needs of the consumer must be met: range and price. At this level is important to understand the profile of the target customer, especially their price elasticity and ranging requirements at a category level and at an individual product level – are there any key items that must be on the shelf?

2. Experiential level

Once a customer has decided which retailers have satisfied the tactile level, the trade-off becomes one of experience. Two fundamental questions to ask are:

- Which retailer will provide better service?
- Which retailer is most convenient for me given my current requirements?

For example, if two retailers are providing the same product at a comparable price, the difference in winning at the experiential layer may be as simple as store locations or cleanliness.

3. Emotional level

The emotional connection with a consumer is the aspirational pinnacle of many retailers. For context, think of the connection brands such as Coca-Cola, Louis Vuitton, Li Ning, Apple, Gucci, Prada and Nike have with their consumers.

The challenge for the retailer is that often the consumer connects with the branded product as opposed to the retailer. This creates a two-fold requirement: in the first instance, the retailer must understand the branded products the consumer connects with and range accordingly, creating a halo-effect and brand association. In the second instance, the retailer must provide an experience and level of service that goes beyond the normal and makes the target customer realise that their great experience was because of something the retailer actively did. It can therefore be concluded

that the emotional level cannot be achieved until the tactile and experiential levels have been exceeded.

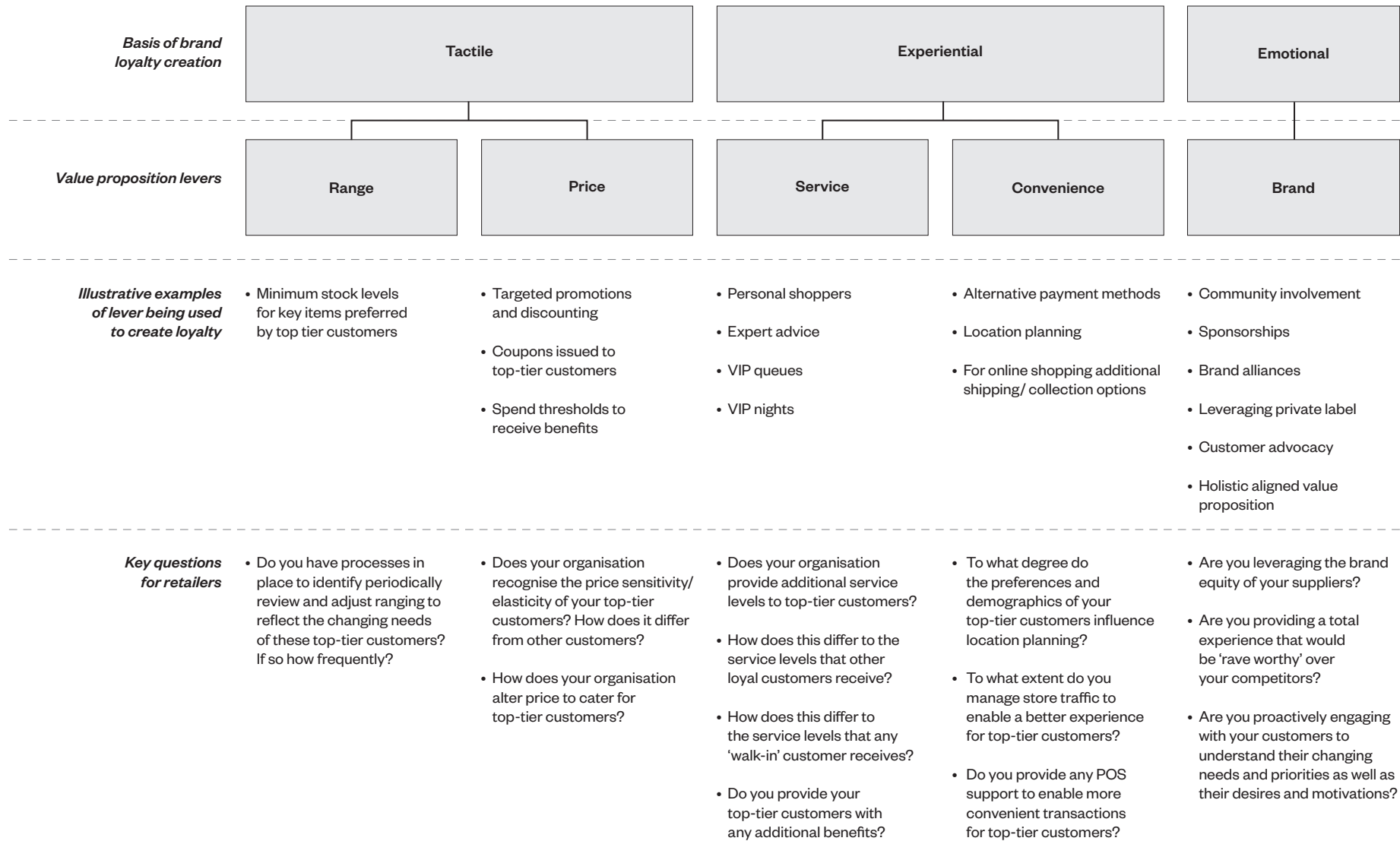
An emotional connection may also be achieved by organisations getting involved with their customers beyond their food and grocery shopping. IGA has a long history of community involvement, allowing customers to convert their loyalty points into donations to local community organisations such as schools, sporting clubs and charities.

These levers are not all mutually exclusive, nor are they prerequisites for each other. A retailer must select the appropriate levers aligned to their target segment and circumstances. For example, service stations in Australia utilise location as a key driver of convenience. They combine this with a targeted impulse and emergency range. While their price point may be higher than the traditional supermarkets in the area, the convenience and range result in them becoming a destination for 'that quick litre of milk on the way home'.

Another example of an organisation utilising multiple levers is the GREAT Food Hall in Hong Kong. This one-of-a-kind store stocks a high-end premium range providing individual counters for each category of produce with very knowledgeable staff, including a dedicated on-site cheese connoisseur to help identify the perfect accompaniment to your meal. VIP customers are known personally by the store's executive chef, who is sure to greet them upon arrival and ensure they are provided with top-quality produce and advice. This creates a strong emotional connection built on the range and service levers.

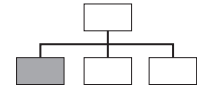
Traditionally retailers have sought to tighten their value propositions through market research to understand customers' needs and wants. Methods such as consumer surveys, focus group panels and mystery shoppers are commonly used tools to build these insights. However, these tools are ad-hoc in nature, or periodic at best. In a constantly evolving environment such as Asia, retailers may miss shifts or subtleties in the consumer behaviour.

How can these value levers create loyalty?



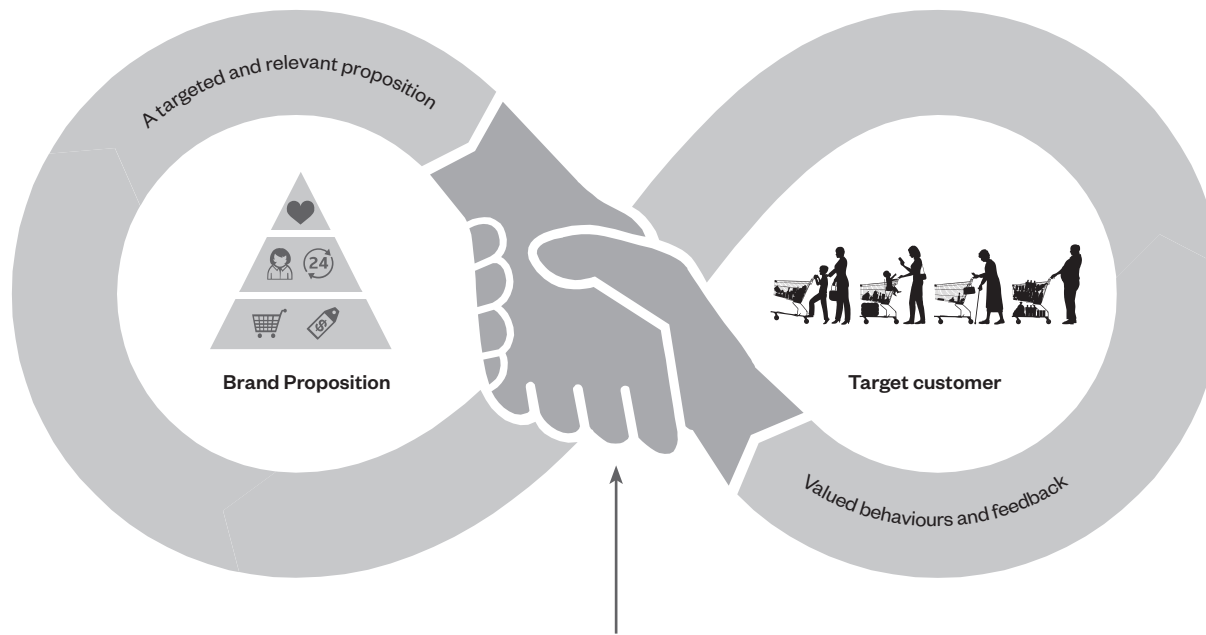


Loyalty management can evolve to become the tool to refine and tighten this offer by ensuring cross-functional alignment in engaging, evaluating and adjusting the offer



Loyalty management can take on the role of the continuous feedback loop, allowing the retailer to adapt and refine their offer

The function of loyalty management



The function of loyalty
The creation and continuous refinement of the link between the retailer's brand proposition and the target customer's needs/wants

The new function of loyalty management is the creation and continuous refinement of the link between the retailer's brand proposition and the target customer's needs/wants.

Loyalty is established through a mutually beneficial relationship between two parties. In this context, the two parties are the retailer and the target customer.

The benefit for the consumer is a holistic value proposition that is more aligned to their needs and wants as a customer than any alternative in the marketplace. The benefit for the retailer is the continued shopping patronage of the customer over the competition. As the relationship strengthens this extends to other benefits, such as increasing spending, more frequent visitation and potentially even brand advocacy.

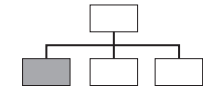
This model is a portrait of loyalty as an infinite loop, illustrating the third component of the model – continual refinement. Loyalty is not a 'set and forget' model – much like real-world relationships, it requires continual refinement.

This feedback loop is the process by which the retailer identifies changes in either the target customer's needs and wants, or a change in the target customer. The retailer then refines the value proposition accordingly.

Source: KPMG



Retailers need to build an organisational-wide understanding of how to embed loyalty management into their operating model and culture



By feeding customer insights into all retail operations, retailers will be able to achieve a refined value proposition.

In order for this loop to function appropriately, the entire retail operation must listen and respond to the consumer insights gained from loyalty.

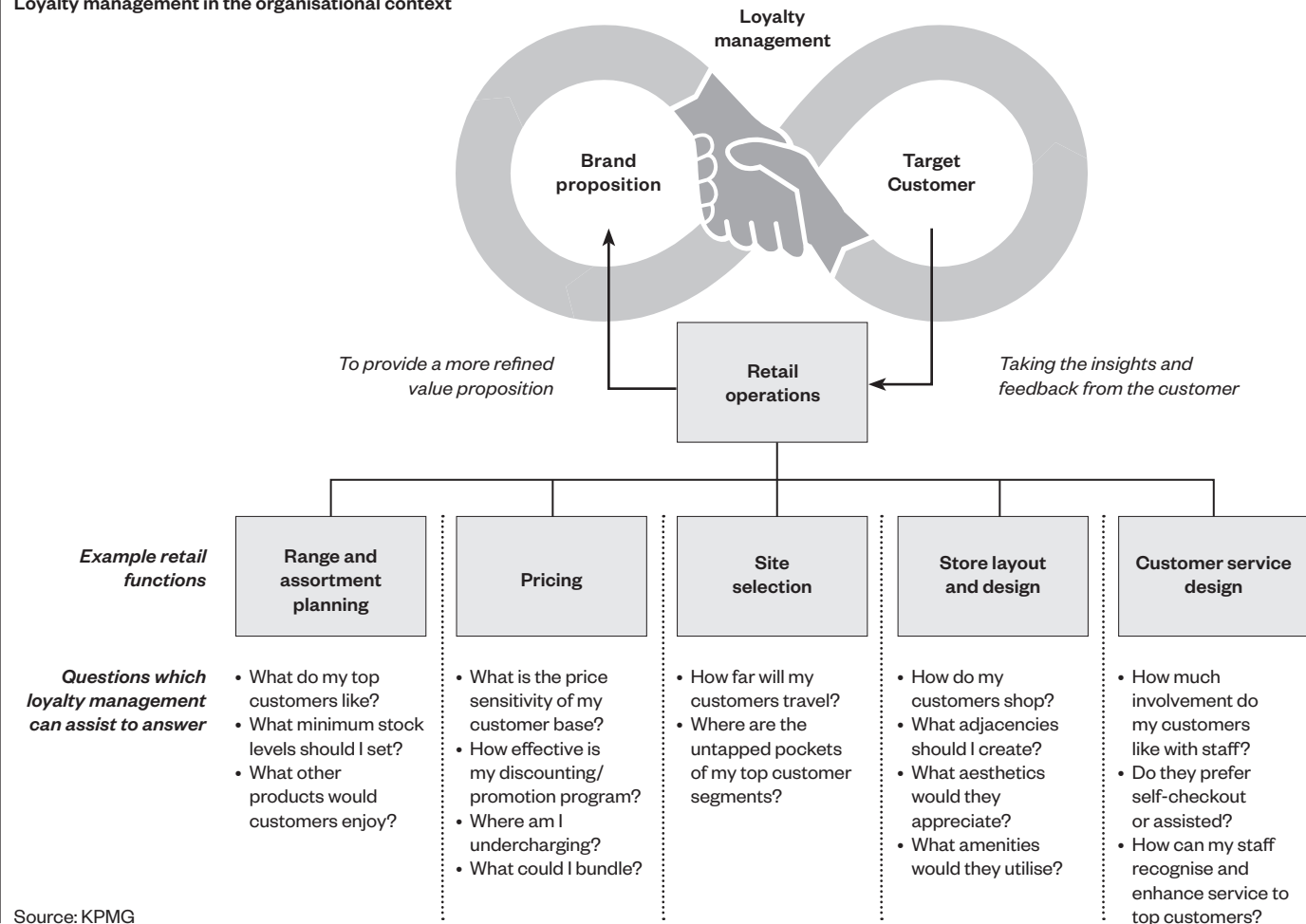
Appropriate response means utilising the data and insights gained as a key input into the decision-making process in each retail function. For example, ranging, store layout and even site selection.

By leveraging these insights throughout the decision-making process, retailers can ensure that their proposition is appropriately tailored to the needs and wants of the target customer.

Achieving a more tightly aligned value proposition will reduce the retailer's reliance on points-based programs.

Currently across Asia the reward mechanisms are currently geared towards cashback rewards, effectively providing retrospective discounting to consumers.

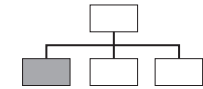
Loyalty management in the organisational context



Retailers should design their loyalty management function to become a key input into decision-making across the retail operation



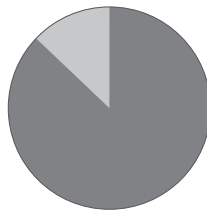
The majority of Asian grocery retailers have started to develop an approach to customer loyalty based on 'earn and burn' programs without understanding their returns on investment



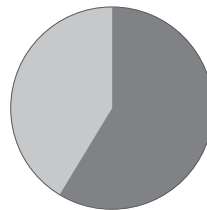
The Asian loyalty landscape has taken shape quickly over the last five years with the majority of Asian retailers now running a loyalty program...

...however, a significant portion of retailers are not measuring or maximising the returns on investment...

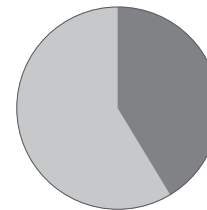
...by leveraging the immediate customer insights, leading organisations are driving sustainable changes in consumer behaviour aligned to corporate objectives



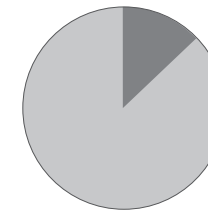
88%
of organisations run an 'earn and burn' based loyalty program whereby points are accrued and redeemed for a gift



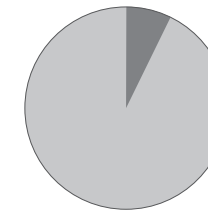
56%
see the card as primarily a means of capturing a contact point for promotional material



40%
collect the POS data accompanying a loyalty registration but do not perform regular analytics with it



12%
indicated that results are integrated into front line operational decision-making such as buying, merchandising and store operations



6%
actively leverage their loyalty program to achieve specific corporate objectives

Source: KPMG interview program

In response to a rapidly changing marketplace, retailers recognise the need to develop improved ways to connect with customers in order to win. As retail practices have developed, a common approach has emerged—the points-based loyalty program.

Western markets have had the better part of 50 years to trial, develop and evolve their thinking in regard to sales and marketing promotion. The Asian region has not had the same luxury of time, with modern trade developing to a significant scale over less than two decades and loyalty practices only becoming prevalent in the last five years.

With intensifying competition for an increasingly sophisticated consumer base, retailers in Asia have

invested heavily in an attempt to establish their brand as the destination of choice for consumers. In doing so, a number of the retailers have looked towards Western markets for leadership and better practice examples they can employ locally.

Despite significant cultural diversity and retail experience across the region, the result has been a high commonality in how retailers have attempted to tackle the loyalty challenge. Interviews suggested that most loyalty program launches have been modest in their ambitions, with most using them as a channel for direct marketing in the first instance.

Of retailers interviewed, almost 100% of those with loyalty programs indicated that they use loyalty registrations for direct marketing, while

only two-thirds indicated that these promotions could be considered targeted and only 30% are personalised to the individual based on the analysis of prior shopping behaviours.

This is a lower-barrier entry point for launching a program and anecdotally has lower costs to implement. However, the trade-off is the lower returns generated from the program and lack of transparency over the return on investment.

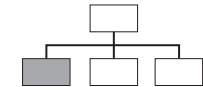
Embarking on a more sophisticated route, takes a more intensive operating model, with institutionalised links between loyalty/analytic teams and operational teams such as buying, merchandising and store operations. This is undoubtedly a higher-cost model, but interviews

have indicated it yields significantly greater returns for the organisations.

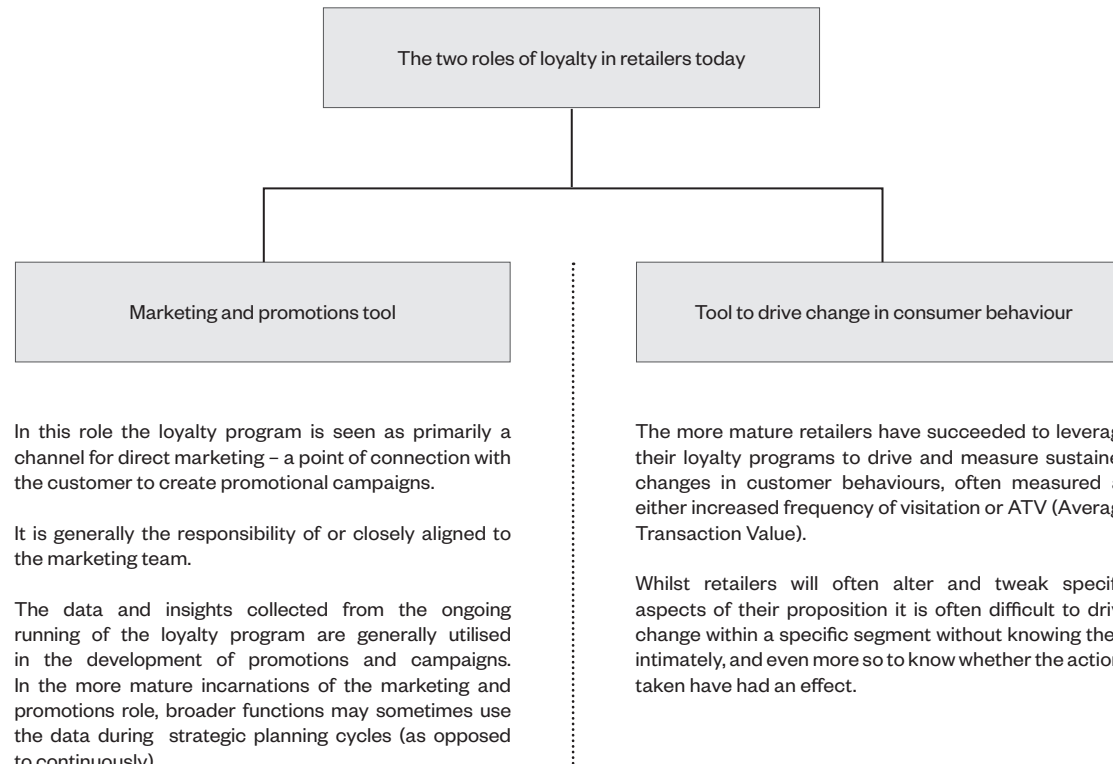
Whilst only a few organisations have managed to fully embedded their data analytics into operational decision-making, many retailers are investing towards this goal. The number one response area of future investment in loyalty was in improving data analytics capability. In Australia, Woolworths recently acquired a stake in data analytics Quantum^(6a) in order to bolster its in-house data capabilities. Woolworths is also working with suppliers to learn from customer behaviour and feed this into areas such as supplier product development, campaign management and improving in-store experience.



Retailers will have to decide on what they are seeking to achieve from loyalty management and hence the role it will play within their organisation



The potential roles of loyalty management



Source: KPMG

Whether loyalty management should remain a marketing and promotion tool, or become the enabler of refining your model depends on your growth ambitions and the dynamics of your market

Understanding whether loyalty should remain primarily a marketing and promotions tool or progress into an enabler of refining the value proposition will depend on the retailer's growth ambitions and the competitive dynamics of their marketplace.

The Asian marketplace has been characterised as one of the largest and most diverse in the world. Retailers have expressed their concerns about grasping the complexity of this market as well as the need to establish and retain a high-value customer base.

To date, there have been two distinct manifestations of how retailers have established their loyalty practices: the marketing/promotion-centred approach and the broader customer relationship approach.

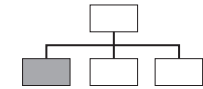
Operationally there are many nuances in the detail of how loyalty is executed within an organisation. These include: the market the retailer is in; the positioning they take; and their operating model. However, leading practice organisations all have a number of common core characteristics:

- Loyalty is seen as a tool to learn about the customer and make more informed decisions about how to serve them – there is an ingrained 'insight-driven' culture
- Loyalty goes beyond the marketing silo and is leveraged into the broader retail operations, becoming part of the organisational ethos

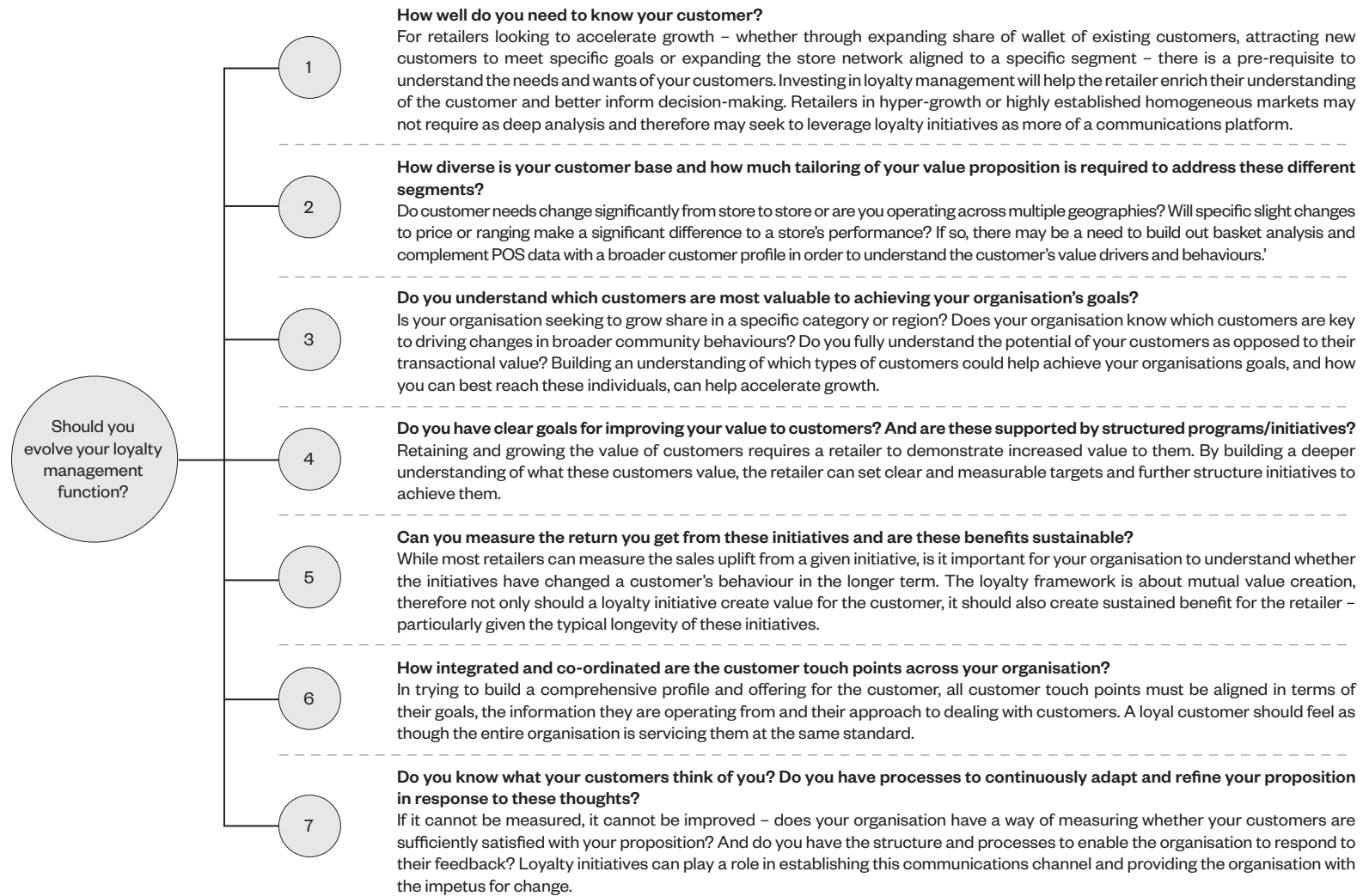
While loyalty initiatives provide additional benefits for the consumer, such as rewards and increased service levels, these organisations ensure they receive mutual benefit through measuring their return on investment.



Retailers can gain a greater understanding of the role their loyalty management function can fulfill by considering seven questions

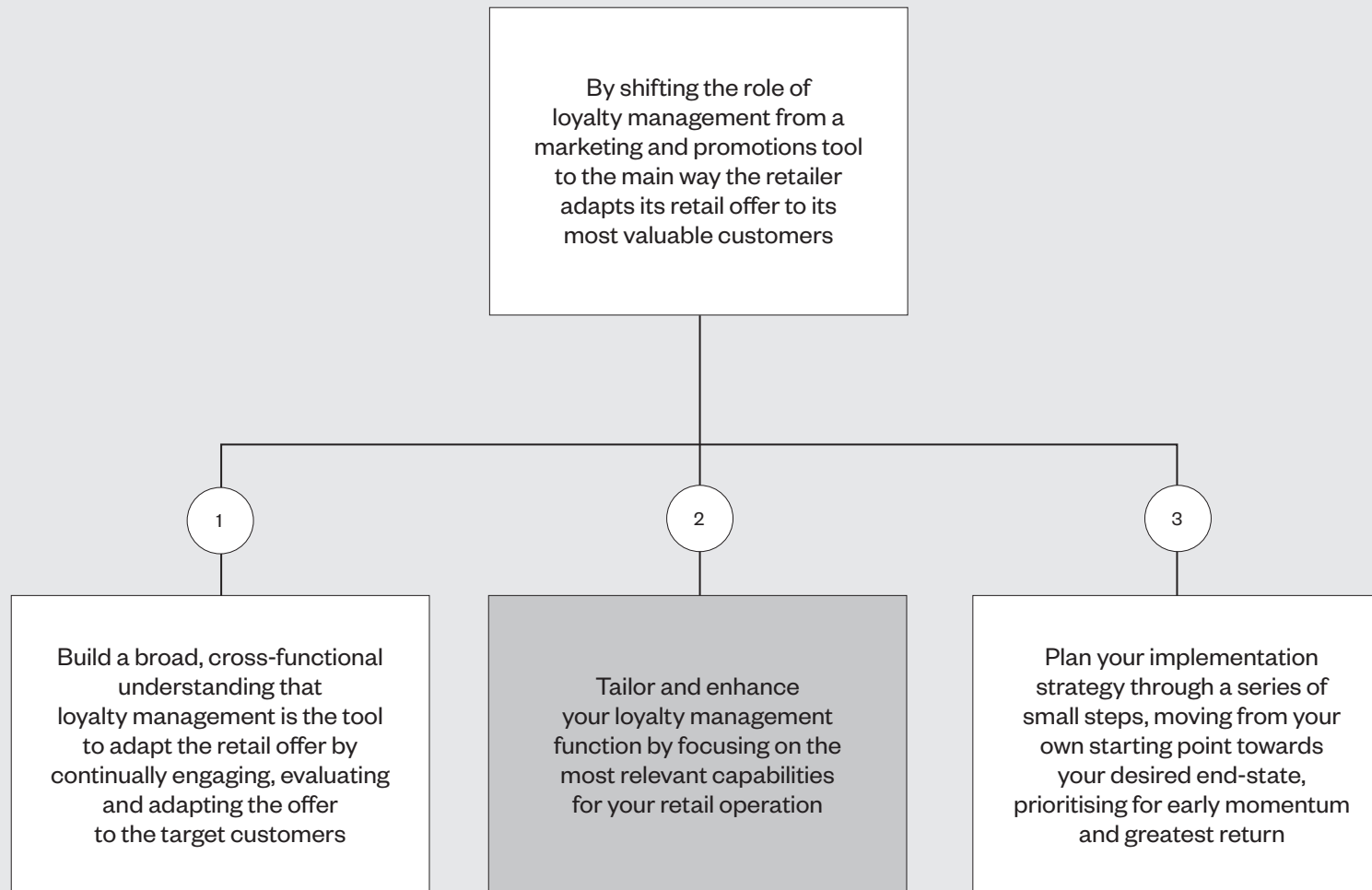


Seven questions to determine the role of loyalty management in your organisation



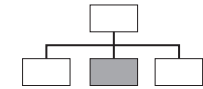
Source: KPMG



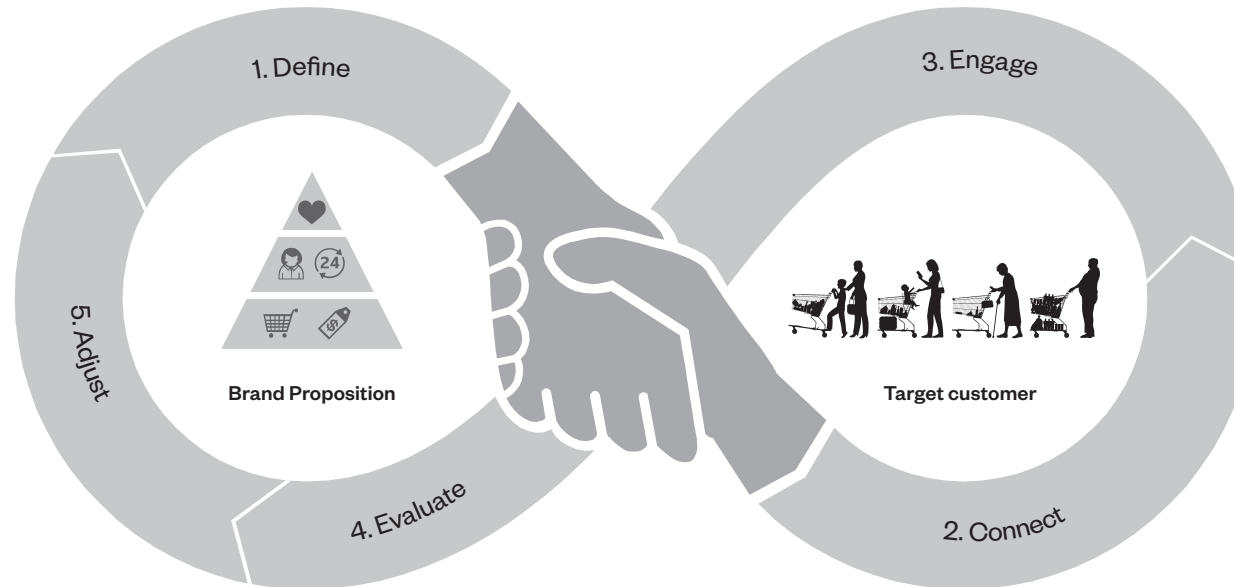




There are five broad capabilities in managing customer loyalty: define, connect, engage, evaluate and adjust



Loyalty management capabilities



Source: KPMG

The process an organisation implements to manage the loyalty proposition and ensure its relevance is an iterative cycle. The first challenge is defining and connecting with the target customer.

Loyalty is not a 'set and forget' activity; it requires retailers to constantly listen and respond to the feedback and changing needs of their target customers. This means retailers need to instil a level of rigour into their processes.

There are five elements to the loyalty management framework, logically structured into a looping repeatable process:

1. Define: The definition stage is the process by which the retailer identifies and describes the attributes of their most desired and valuable customers for achieving corporate objectives. For example, Park'n'Shop has set itself a corporate goal to grow its

share of the fresh category away from wet markets. To achieve this, they utilised their customer segmentation methodology and looked at their already established Kitchen Queen segment – those individuals who enjoy cooking. They created an additional level of basket analysis, recognising those who bought cooking staples such as rice, oils and condiments in store but who were not purchasing fresh produce. They began targeting these individuals to try basic fresh produce in store.

2. Connect: Connect is the more practical process of knowing which customers meet the profile. For example, Big Bazaar places an assistant manager at its store entrances whose job is to recognise and know the top 20 customers for that store – providing them with a bright orange VIP tag upon arrival to ensure floor staff recognise the individual and provide a higher service standard.

3. Engage: The engage step is the connection between the customers and the retailer – it is the alignment of everything that the customer touches within the organisation that helps to fulfill their requirements, including marketing, ranging, pricing, customer service and POS .

4. Evaluate: This is the process by which the retailer assesses whether they are maximising return from loyalty initiatives. Cold Storage, part of the Dairy Farm group in Singapore, performs an ROI evaluation of loyalty initiatives and promotions in a management forum held twice a month. This process allows the marketing and management teams to understand the initiatives that are gaining traction and to help shape future campaigns.

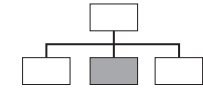
5. Adjust: The organisation adopts a proactive culture of intervention – if something is not working it must be changed – this makes the feedback loop complete.



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商店

As the scale and complexity of the retailer's operations grow, keeping up requires the retailer to mature and institutionalise processes moving from 'an art to a science'



As retailers expand the scope of their operations, the process must transition from art and reliance on people, to one of science and repeatable processes.

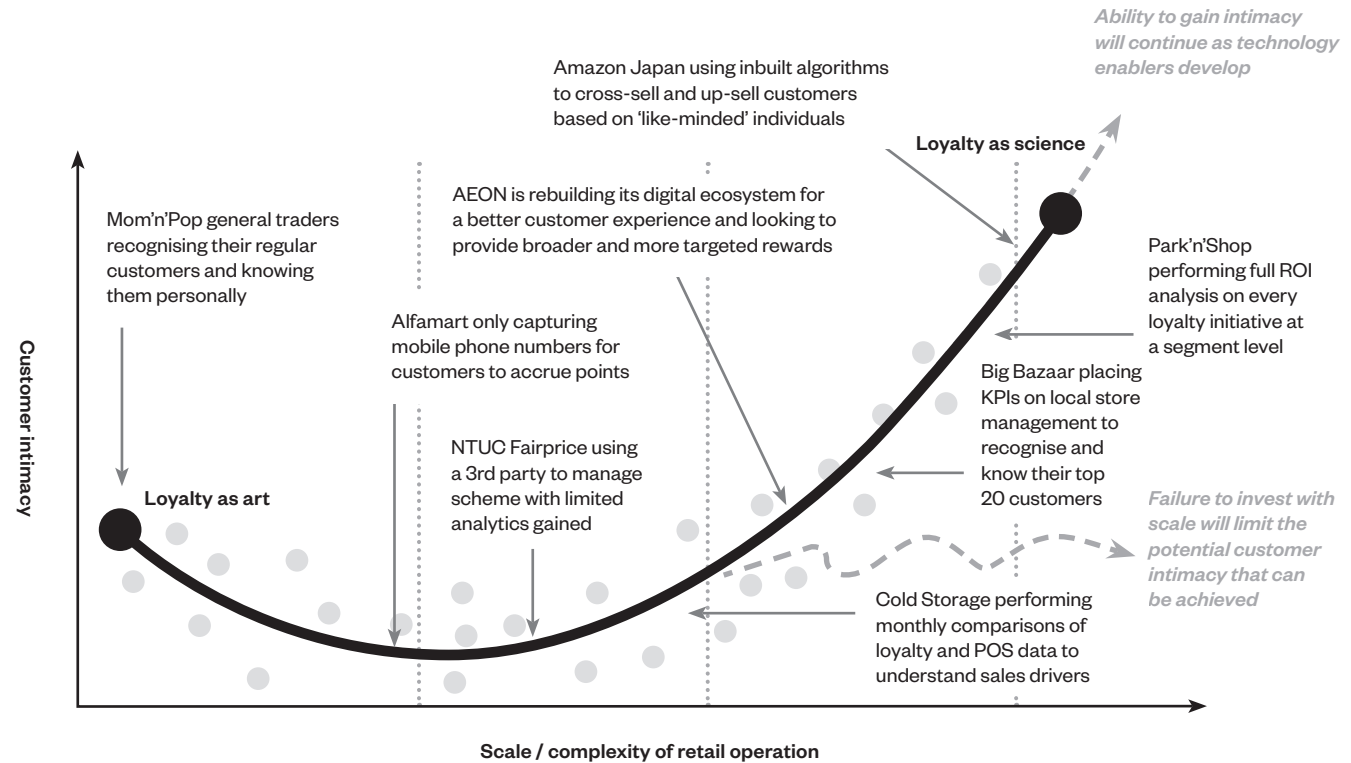
During the process of conducting interviews across the region, a relationship emerged between the scale of a retailer's operations and the level of customer intimacy they managed to achieve. As scale and complexity emerge there is a need to institutionalise processes in order to maintain the results seen in the small-scale stages.

The relationship began to form a 'J-Curve' shape: in low-scale operations with local empowered management teams a high degree of customer intimacy is generally achieved as store teams recognise their high value customers and provide a degree of personalised service. This is akin to the local coffee barista who remembers the regular's orders.

As retailers gain initial scale, there emerges a period where retailers lose this proximity to their customers. Interviews suggest this is due to a period of focus on increasing store numbers and expanding operations such as supply chain with limited investment in customer-orientated systems such as loyalty. A number of respondents also indicated that during this period they implemented points programs, but these were generally managed by third parties with limited data insights generated.

However, there comes a point at which these growing retailers can begin to re-invest in customer intimacy through either a) decentralisation and re-empowerment of local management, or b) investment in technology such as customer relationship management systems and data analytics capability.

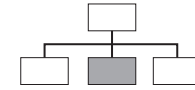
Progressing from loyalty as an art to loyalty as a science



Source: Based on analysis of interview program responses

As retailers grow they need to invest in maturing their loyalty management capabilities in order to continue gaining customer intimacy

Therefore, these capabilities can be viewed as a maturity model for retailers to progress through as they grow and develop

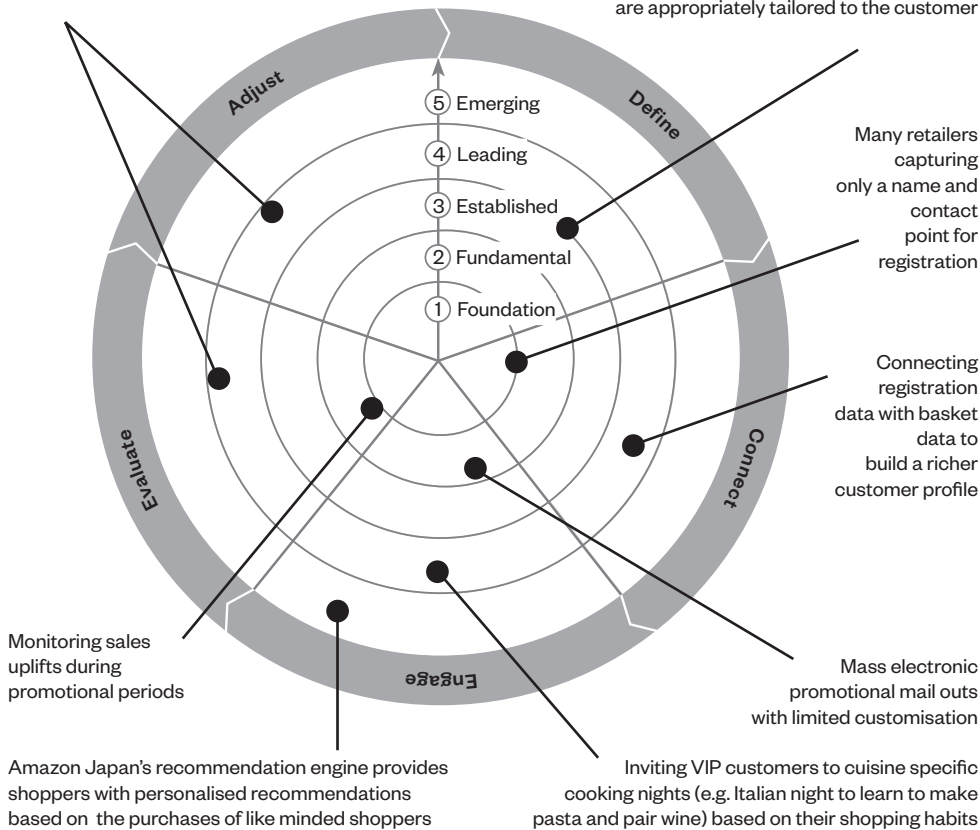


Loyalty management capability levels with examples

ILLUSTRATIVE

Park'n'Shop conduct full return on investment analysis for each campaign, feeding results into a lessons learned process to enhance future initiatives

Big Bazaar have used a combination of basket analysis and ethnography to build detailed profiles of 25 Indian communities including local specialty recipes to ensure their stores are appropriately tailored to the customer



As retailers grow and develop, loyalty management must also mature, in the same way as other functions, such as supply chain and finance.

In order to retain and continue to build customer intimacy, retailers must invest in the development of their loyalty management function as their organisations grow.

This continued investment can be viewed as a maturity model through which retailers can progress as they require greater capability in order to gain deeper customer insights and refine their value proposition.

There are five levels of capability development:

Level 1 Foundation	Level 2 Fundamental	Level 3 Established	Level 4 Leading	Level 5 Emerging
Base level practices, generally exhibited in companies just recently launching loyalty initiatives. These companies have built a foundation to expand capability.	Low-average practices. Exhibited by a large number of organisations in the segment. This capability level is generally reflective of a 'follower' organisation.	High-average practices, seen by the slightly more mature retailers. These companies have developed a capability that is running in a consistent and repeatable manner, however may not be leading practice.	Mechanics currently employed by 'better practice' companies. These companies have implemented leading capabilities compared with their peers.	Investments planned by 'better practice' companies over the next three years.

Retailers should seek to understand the typical activities undertaken at each capability level, illustrated in the maturity model opposite, in order to begin building a desired end state for their own loyalty management function.

The goal of this maturity model is not necessarily to progress to the most advanced level of each capability area, but rather to understand the level that is required based on the retailer's individual requirements.

Source: KPMG interview program

Loyalty Management Maturity Model

Maturity levels

Loyalty capabilities

	Level 1. Foundation	Level 2. Fundamental	Level 3. Established	Level 4. Leading	Level 5. Emerging
 <p>1. Define</p> <ul style="list-style-type: none"> Define what value means for your organisation in a customer behaviour context Identify and profile what your most valuable segments are 	<ul style="list-style-type: none"> Base level practices, generally exhibited in companies just recently launching loyalty initiatives. These companies have built a foundation to expand capability. 	<ul style="list-style-type: none"> Low-average practices. Exhibited by a large number of organisations in the segment. This capability level is generally reflective of a 'follower' organisation. 	<ul style="list-style-type: none"> High-average practices, seen by the slightly more mature retailers. These companies have developed a capability that is running in a consistent and repeatable manner, however may not be leading practice. 	<ul style="list-style-type: none"> Mechanics currently employed by 'better practice' companies. These companies have implemented leading capabilities compared with their peers 	<ul style="list-style-type: none"> Investments planned by 'better practice' companies over the next three years
 <p>2. Connect</p> <ul style="list-style-type: none"> Identify and establish a relationship with the customers who match the defined segments 	<ul style="list-style-type: none"> Population orientation Basic understanding of the customer base through general population statistics such as demographics and socio-economic studies 	<ul style="list-style-type: none"> Catchment orientation Catchment based understanding of customer base based on local (store level) demographics and socio-economics 	<ul style="list-style-type: none"> Shopper segment orientation Combining demographics with basket analysis to derive segments of shopper (lifestyle segmentation) 	<ul style="list-style-type: none"> Individual shopper orientation Ability to define individual customers needs/wants at a more granular level by utilising behavioural segmentation 	<ul style="list-style-type: none"> Predictive orientation Ability to predict an individual customers needs and wants as the progress through the customer lifecycle based on correlation with other like-minded customers
 <p>3. Engage</p> <ul style="list-style-type: none"> Continuously conduct two-way engagement with these individuals 	<ul style="list-style-type: none"> Discount led Rewarding customers with instant discount offers – no points accumulation Mass communications Communications aimed at all program members with no tailoring 	<ul style="list-style-type: none"> Coalition participant Participation in a 3rd party 'earn and burn' style loyal program Segment based communications Communications targeting a specific sub-set of loyalty members 	<ul style="list-style-type: none"> Coalition leader or closed loop Either leading a coalition loyalty program with additional partners to enrich the proposition or running a closed-loop program Individualised communications Personalised communications based on historic basket analysis 	<ul style="list-style-type: none"> Closed loop loyalty program Running a closed loop program to ensure value remains within the organisation Behaviour changing communications Aimed at introducing / educating customers on new categories 	<ul style="list-style-type: none"> No loyalty program required Developed ability to engage the customer without the need for a loyalty program based on efficient and effective refinement of value proposition levers Ability to drive behaviour change change through value proposition
 <p>4. Evaluate</p> <ul style="list-style-type: none"> Assess the impacts of your engagement on customer behaviours/value 	<ul style="list-style-type: none"> Periodic sales monitoring Reviewing the effects of loyalty initiatives on sales figures in a periodic or ad-hoc manner Marketing siloed Evaluation conducted by marketing team in isolation 	<ul style="list-style-type: none"> Dynamic sales monitoring Monitoring the effects of each initiative on sales immediately following the event/activity Periodic organisational involvement Broader functions invited to periodic meetings to share results of evaluation 	<ul style="list-style-type: none"> Initiative level ROI analysis Ability and processes to calculate the return on investment for each initiative Process-led organisational involvement Evaluation processes that involve representation from other retail functions 	<ul style="list-style-type: none"> Customer level ROI analysis Analysing the lifetime ROI from targeting a specific customer and the impacts of each initiative Organisational engagement Proactive engagement from retail functions to 'want' to use loyalty insights 	<ul style="list-style-type: none"> Predictive analysis and scenario modelling Ability to conduct 'games' or scenarios to determine the potential impact of a given initiative on the target customers lifetime value – are you going to sustainably change behaviour and increase their potential?
 <p>5. Adjust</p> <ul style="list-style-type: none"> Based on the outcomes of the evaluation continuously iterate your engagement practices 	<ul style="list-style-type: none"> 'Me too' adjustments Reactive adjustments to value proposition based on following competition 	<ul style="list-style-type: none"> Lesson learnt program Periodic reviews of results to adjust loyalty initiatives going forward 	<ul style="list-style-type: none"> Embedded into initiative process Process based requirement for changes to the value proposition elements based on the success or failure of a given initiative 	<ul style="list-style-type: none"> Embedded into retail functions processes Rather than adjustment occurring based off loyalty initiatives the retail functions have the requirement to use loyalty insights in their processes leading to constant refinement of the value proposition 	<ul style="list-style-type: none"> Culture of experimentation An established organisational culture by which all functions are proactively seeking to learn from customers and refine their proposition accompanied by a 'not afraid to fail' attitude

Source: KPMG

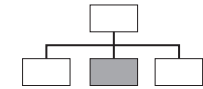
Making the connection: rethinking the role of loyalty management

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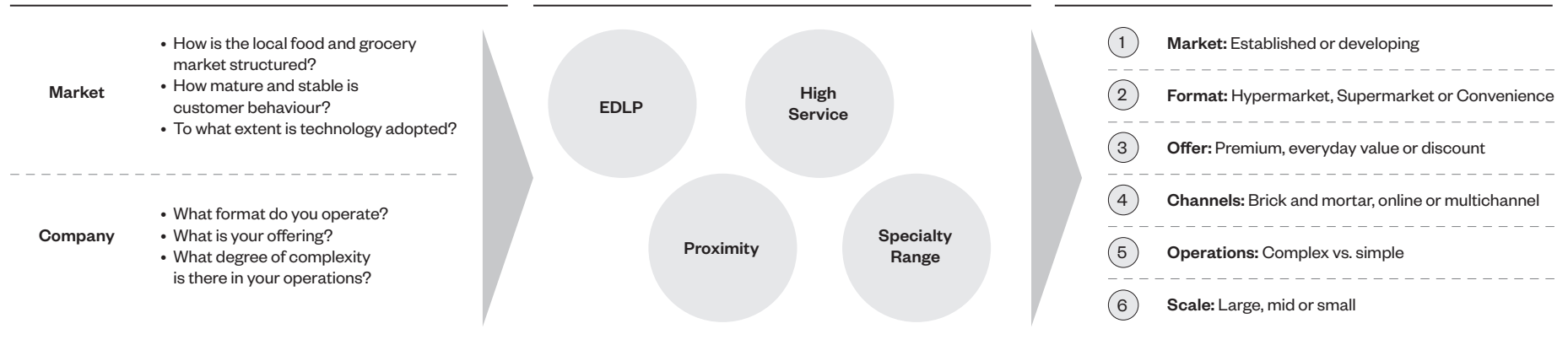
However, different retailers will have varied goals, focuses and operating constraints



Every retail operation is different depending on the marketplace dynamics and organisational characteristics...

...these differences will play a critical role in how a retailer competes in their marketplace...

...In particular, there are six key characteristics that define a retailer and that need to be considered in designing a loyalty management function



Against a backdrop of market growth and complexity, there is no clear one-size fits all model for perfecting customer loyalty — what is good for one retailer could be a disaster for another.

With the high degree of diversity across the region – from the different economic growth rates, the varying effects of the consumer mega-trends – and the different ways in which retailers can participate in the market from hypermarket through convenience and premium through discount it is clear that there is no one-size-fits-all approach to tackling the loyalty challenge.

Yet, as discussed, the market has adopted a somewhat homogenous approach. This highlights that there is a knowledge gap, where retailers are potentially either unaware of the array of tools available to them or are unsure which best apply to their given situation.

Understanding which tools are appropriate and how to implement them effectively requires retailers to understand what is appropriate to their particular context.

There are six key characteristics of a retailer that are pertinent in considering how to develop a loyalty management function:

1. Market: Is the market you are operating in established or developed? Considerations such as the extent of modern trade, the stability of consumer shopping patterns and the degree of technology adoption will all play key roles in the design and execution of an appropriate loyalty management function.

2. Format: The format of retailer you are operating influences the way a consumer perceives and engages with you and therefore how you will in turn need to engage with them – the consumer rationale

behind engaging with a supermarket versus a convenience outlet, for example, are very different so different value proposition levers will be engaged.

3. Offer: The positioning a retailer takes with their offer – whether premium, mass market everyday value or discount – brings with it a set of consumer expectations about how they will engage with you. For example, the service levels expected between a premium retailer compared to a discount chain are quite different.

4. Channels: The mix of channels a retailer has available to them will heavily influence the 'engage' capability area. For traditional bricks and mortar retailers there is a need to create a 'pull' into the store. For online retailers it is competing with others who are 'a click away' and for multi-channel operators it is creating a seamless experience across all channels for the customer.

5. Operations: The degree of complexity in a retailer's operations will dictate the level of process orientation and reliance on technology required to develop a loyalty function. Where a simple business may be able to rely on key individuals and store managers, a larger more sophisticated chain will require things such as POS integration and data analytics.

6. Scale: Scale, much like operational complexity, introduces the need to progress from 'retail as an art' to 'retail as a science', meaning greater focus on institutionalising processes and utilising technology.

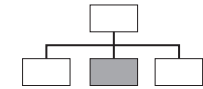
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Therefore, retailers need to tailor their development of these capabilities around the specific characteristics of their retail operations



Retailers need to understand how these characteristics affect the design of a loyalty management function...

Each of these characteristics will have an impact on the focus and capability levels required in developing out a loyalty management function. Retailers need to familiarise themselves with how their retail configuration will change the emphasis and required capability level.

For example, in the Philippines convenience market, selecting the right building can mean top-tier customers visit up to five times per day and the store can generate as much as 50% greater than a site 10 metres away in the building next door. Therefore profiling the desired customer and feeding the profile into site selection processes is critical to establishing a targeted loyal customer base.

...and tailor the design of their loyalty management function accordingly

'Tweaking' the design of a retailer's loyalty management function will help provide a more customised implementation aligned to both the marketplace conditions and operating constraints.

For example GREAT Food Hall, a premium concept store from AS Watson, currently with only one location in Hong Kong, provides its customers with access to ultra-premium imported products such as meats, vegetables and even caviar. However, it's not just the ranging. These products are delivered in a premium manner too, with categories having their own 'stages', such as the wine cellar with a dedicated sommelier and a dedicated refrigerated cheese room with expert advice on the best cheese to pair with your recently selected wine. In order to keep this experience fresh and exciting, head chef Timothy Broderick personally engages with frequent customers and discusses different food and recipe ideas.

Adjustments required by retailer characteristic

Market	Established: <ul style="list-style-type: none"> Focus is on differentiation Initiatives targeting incremental change in customer baskets as opposed to wholesale change 	Developing: <ul style="list-style-type: none"> Focus is on educating and changing fundamental consumer behaviours (e.g. move away from wet markets)
Format	Hyper / Super: <ul style="list-style-type: none"> Focus on moving ATV and enhancing experience through non-labour intensive mechanisms (e.g. layout) Cascading segmentation critical 	Convenience: <ul style="list-style-type: none"> Focus on location, frequency, transaction speed and package size Evaluation should be on traffic and experience elements in addition to basket
Offer	Everyday value: <ul style="list-style-type: none"> Focus currently on connection and engagement Need to develop evaluation capabilities and adjust more frequently 	Premium: <ul style="list-style-type: none"> Greater emphasis on customer definition / profile Focus on range, experience and emotional levers
Channel	Brick and mortar: <ul style="list-style-type: none"> Ability to observe customers live Ability to build service characteristics such as friendliness Focus on service and advice 	Online: <ul style="list-style-type: none"> Data availability advantage Building greater focus on convenience and 'value-adding' interactions Multi-channel: <ul style="list-style-type: none"> Requirement emerging to build greater cross-channel consistency Greater ability to build richer profile through combining channel data
Operations	Simple: <ul style="list-style-type: none"> Greater ability to experiment often and respond to micro-trends 	Complex: <ul style="list-style-type: none"> Greater emphasis on systematic evaluation and controlled experiments due to more opaque operations
Scale	Small-scale: <ul style="list-style-type: none"> Greater reliance on individuals over technology Focus on training and guidance over formal process 	Mid-scale: <ul style="list-style-type: none"> Bridge capability gaps through partnerships and coalitions If investing in technology, make sure it is scalable Large-scale: <ul style="list-style-type: none"> Focus on connect and engage Heavy reliance on data analytics Need to establish organisation-wide support for loyalty in decision making



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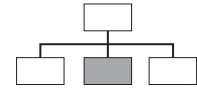
cherry tomatoes coconut bay leaf
white radish

Thailand 44018
Mango
\$13.80 / 100g

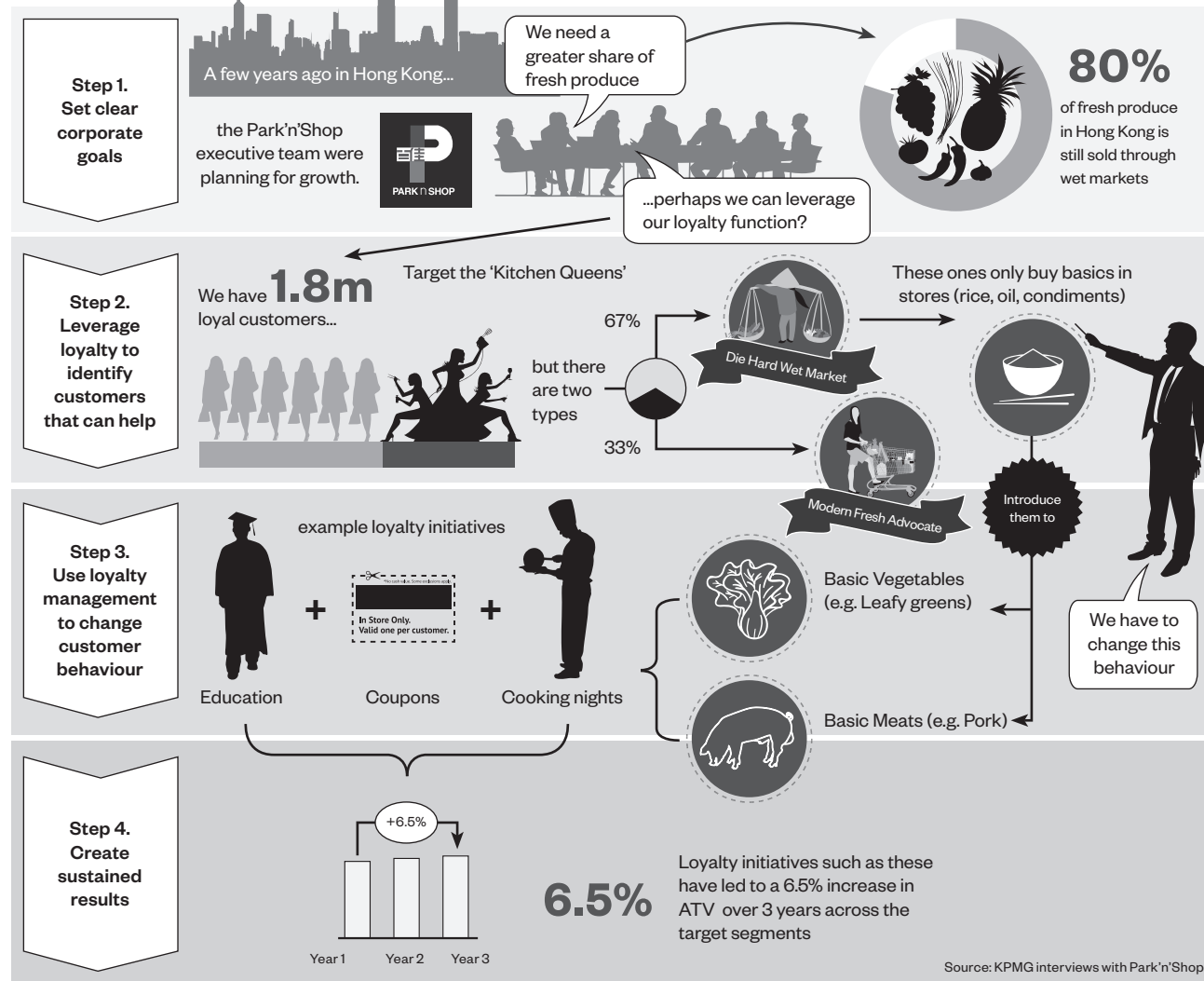
Philippines 4406
Pineapple Del Mont
\$42.80 / Each



Tailoring the focus and extent of capability development will produce a more customised and fit for purpose loyalty management function



A story from Park'n'Shop...



Retailers that have tailored their loyalty management function in line with their market and operating conditions have managed to generate greater returns and create sustainable change in their customers' behaviours.

Greater alignment between the design of loyalty management, the customers' needs and the retailer's operating model will lead to mutual benefit for both customers and retailers.

On the retailer side, this should lead to greater sales through either increased ATV, increased frequency of visitation or the acquisition of new customers.

On the customer side, a properly tailored loyalty management function will lead to the retailer providing a more enticing value proposition. This can take the form of stocking the right products, more appropriate pricing, better in-store service or even more convenient store locations.

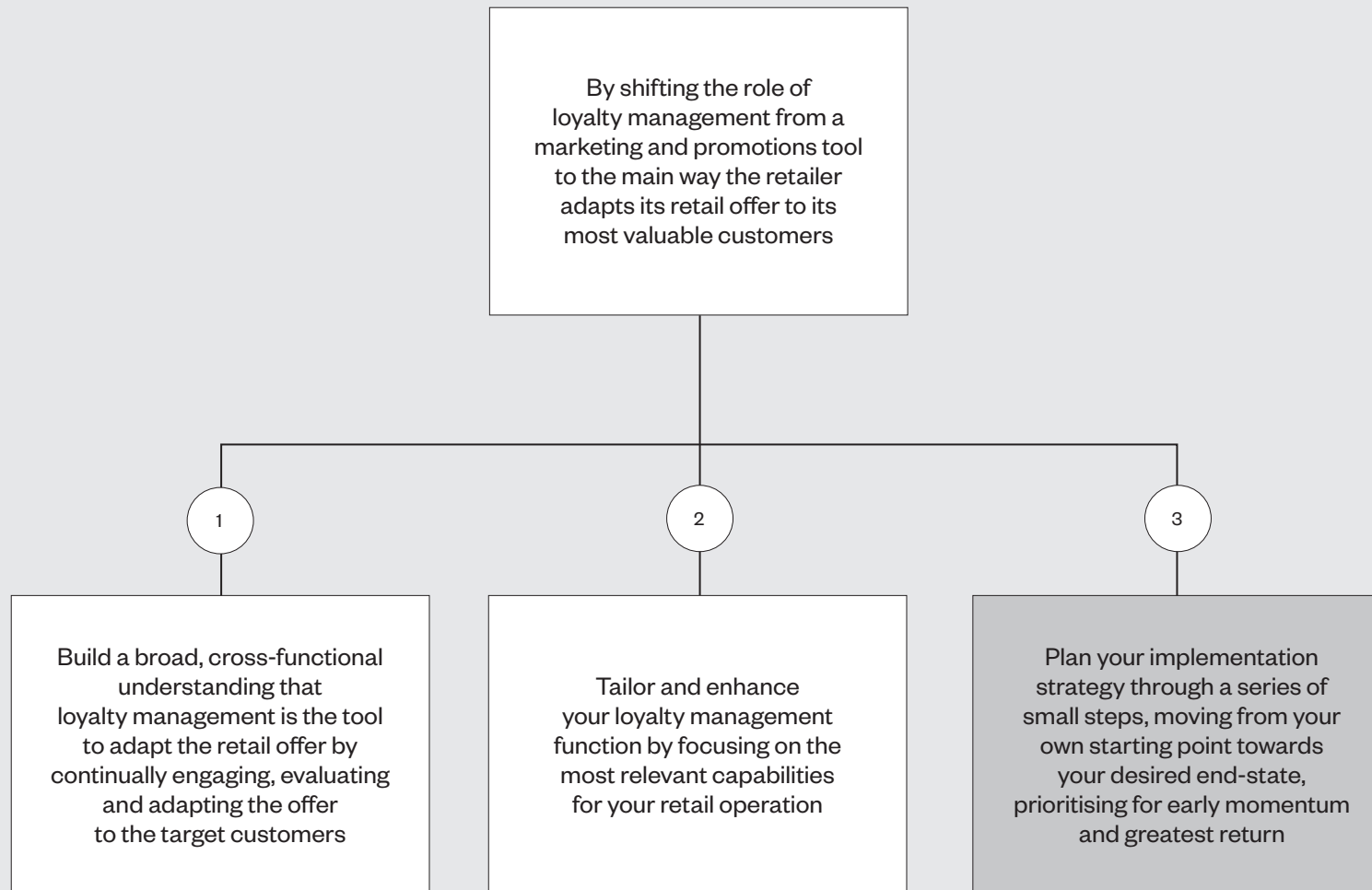
A prime example of this is Park'n'Shop in Hong Kong. The Park'n'Shop team recognised that close to 80% of fresh produce was still being sold through traditional wet markets and set themselves the corporate objective of growing their market share in this category.

Within their existing loyalty management framework, Park'n'Shop already had a segment entitled 'The Kitchen Queen' a group of customers who love to cook.

They leveraged their loyalty management platform even further to split this segment into two – the customers who did their entire shop in store, and more importantly those who only purchased cooking staples such as rice, oils and condiments – concluding these customers were 'wet market die-hards'. These customers represented over 65% of Kitchen Queens and therefore represented a significant opportunity.

Through targeted loyalty initiatives and customer education Park'n'Shop have been able to alter customer behaviour and drive improved and sustained ATV increases.





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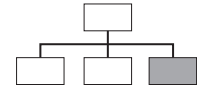
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Retailers need to perform a self-appraisal of their current capability level relative to their desired end state in order to understand the scale of change



ILLUSTRATIVE

Having established a desired end-state, retailers need to understand the change required to get there.

Having spent time devising a future role and capability requirements for loyalty management, retailers must then reflect honestly on their current operations to understand the quantum of change ahead.

This requires retailers to conduct a self appraisal of their current operations — effectively establishing a baseline.

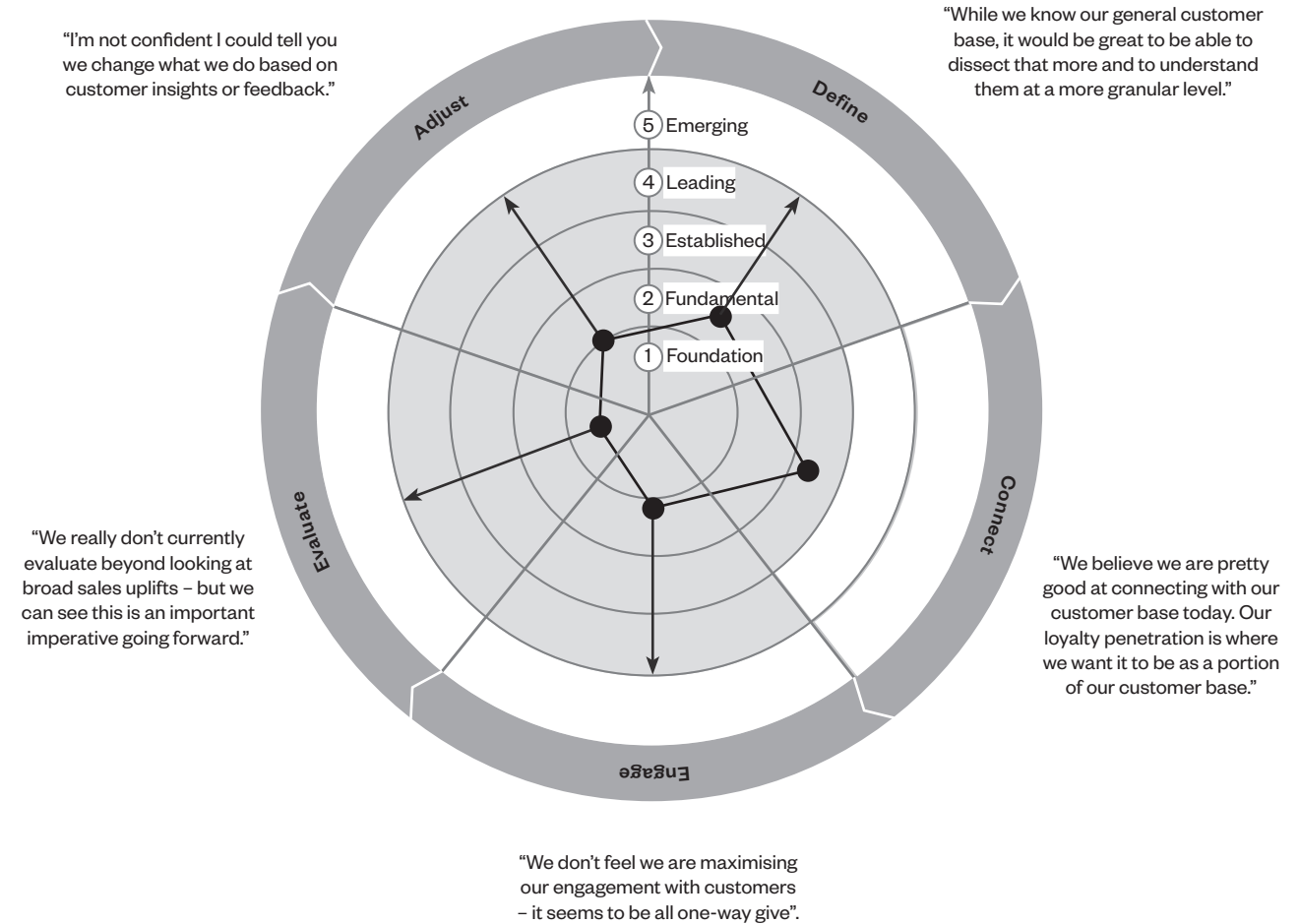
How well is your organisation achieving each the objectives of each capability?

Comparing the baseline to the desired end-state will provide a view on the scope and scale of change required.

Understanding which capability and the extent of change required will allow the retailer to begin building their implementation strategy.

Loyalty management change assessment — with common retailer comments based on interviews

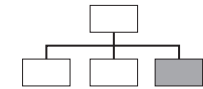
Key: ■ Desired end-state ● Current state → Change required



Source: KPMG



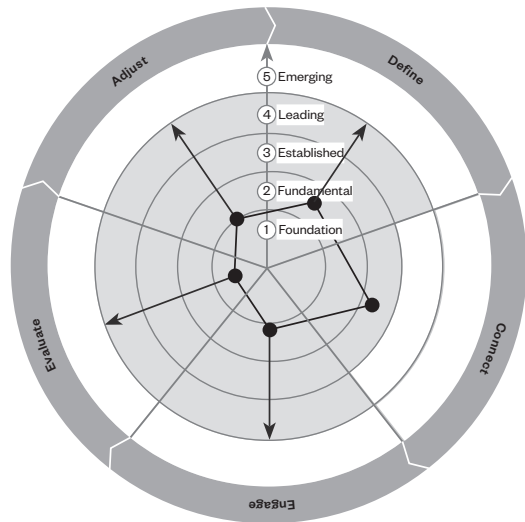
Implementation of a loyalty management function requires a degree of experimentation; retailers need to break-down their change journey into a series of small steps to evolve effectively



Breaking down the capability gaps into manageable steps...

...and experimenting with different capability levels and combinations...

...will enable the organisation to build the most efficient and tailored loyalty management function



Retailers will have to develop an implementation strategy to progress their loyalty management function from its current to the desired end-state.

As with any functional transformation journey, the evolution of loyalty management requires the retailer to develop an implementation strategy detailing at a high level how each capability will be matured. This implementation strategy will outline the future-state, desired timelines as well as roles and responsibilities for driving change and adoption across the organisation.

However, developing an effective loyalty management capability requires a degree of experimentation to refine and arrive at the right configuration for each retailer.

Loyalty management requires 'mutual' benefit for both retailer and customer to be achieved in order to be effective. There is naturally going to be a degree of trial and error in assessing how customers react and perceive various initiatives. This feedback will then be evaluated and loyalty initiatives adjusted accordingly.

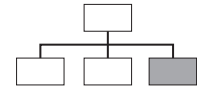
Breaking down gaps into incremental and discrete 'steps' of change, each with their own defined contribution, will allow retailers to flexibly evaluate and evolve their loyalty management function.

By disaggregating changes into smaller steps, the changes can be implemented in an incremental manner, allowing for each change to be evaluated for its value contribution, creating a sense of continued momentum and achievement across the organisation. Discrete steps can also be adjusted in a more timely and precise fashion than large-scale change - fostering the idea of experimentation further.

This approach will help ensure the development of an efficient and effective loyalty management function.



Create early momentum and develop an implementation strategy by prioritising based on both the benefits for your customers and your organisation



In order to establish early momentum and ensure that each 'step' of change continues to improve performance, retailers need to prioritise their investments. However, this prioritisation requires retailers to assess the benefits associated with each incremental change from both a retailer and a customer perspective.

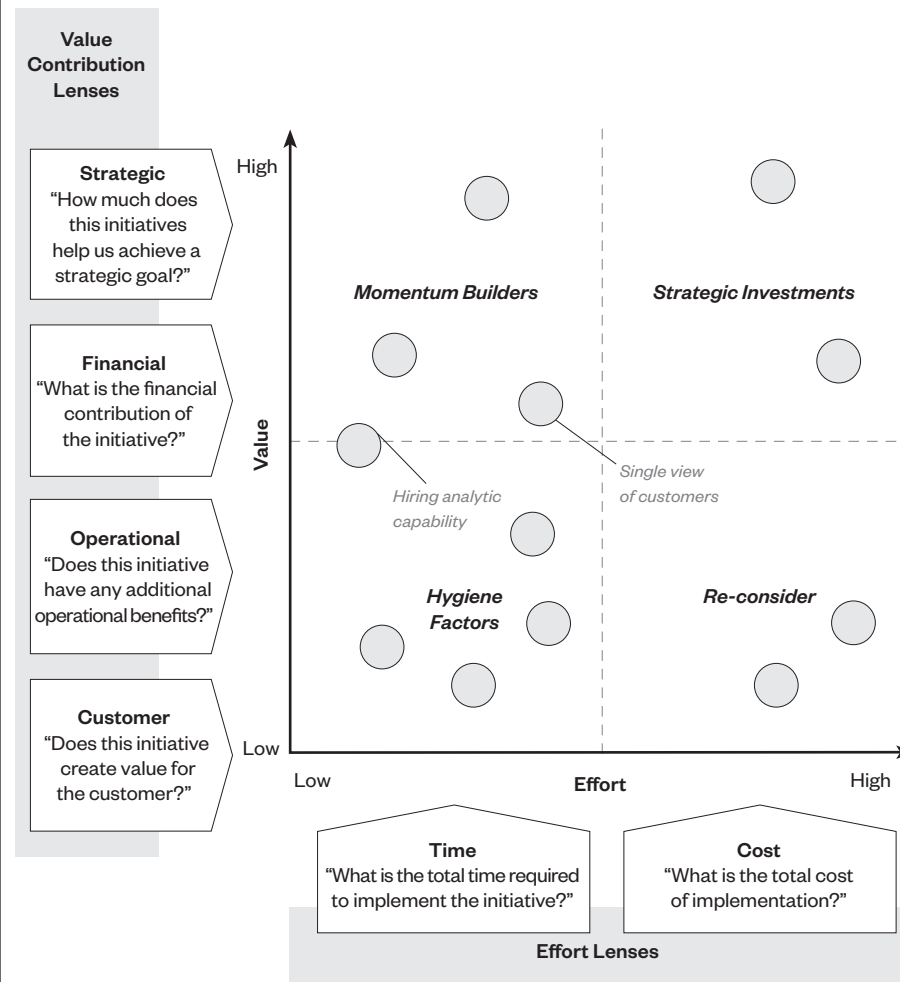
There are broadly four lenses through which each initiative should be assessed from a value perspective:

- 1. Strategic:** "How much does this initiatives help us achieve a strategic goal?" Will this initiative help you compete better in a given category or segment? Will this initiative help growth or expansion objectives?
- 2. Financial:** "What is the financial contribution of the initiative?" For example, what uplift will there be in ATV or visitation from a given segment? What additional sales can you expect for a category?
- 3. Operational:** "Does this initiative have any additional operational benefits?" For example, will it aid supplier negotiations? Reduce above the line marketing spend? Improve pricing effectiveness?
- 4. Customer:** "Does this initiative create value for the customer?" For example, does it reduce the total time in store? Does it introduce new exciting products? Adding this lens to the assessment ensures the voice of the customer is always present in assessing loyalty initiatives.

This value contribution must also be weighed against the effort required to implement, considering both cost and time dimensions.

Loyalty management prioritisation matrix — with examples

Key: ○ - Loyalty initiative / capability build



ILLUSTRATIVE

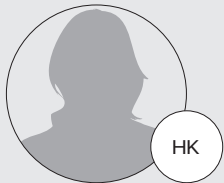
The results will inform the development of a high-level implementation strategy

As a result of this prioritisation initiatives will be able to be categorised under four types:

- 1. Hygiene factors:** Low cost, low value initiatives that are simple to implement but aren't likely to create momentum or great organisational support. But these may be what is required to bring the organisation up to basic competitive level.
- 2. Momentum builders:** These initiatives are high value, low effort – they will likely be regarded as 'big wins' and generate significant support across the organisation. These should be prioritised as early as possible to demonstrate the value that loyalty management can deliver.
- 3. Strategic investments:** These initiatives will likely deliver significant value to the entire organisation, however they will equally take a large effort to implement – likely over a long time period. In order to sustain the momentum, strategic investments should be run in parallel to the momentum builders so as not to be branded alongside 'never ending projects'.
- 4. Reconsider:** As loyalty management is a creative process, there will be a number of initiatives that eventually don't meet investment criteria. These should in the first instance be re-worked to see if they can be altered to deliver greater value and then potentially reconsidered.

Source: KPMG

If you could leave a key piece of advice with other retailers across the region embarking on their loyalty management journey...



Jessica To
Marketing Director,
Greater China, Park'n'Shop
China & Hong Kong

As organisations seek to develop their capabilities and mature their loyalty function, Jessica To, Marketing Director of Park'N'Shop in Greater China, provides three key lessons:

- Build a data-driven culture to ensure effective decision making
- Build continuous baselines for assessing the ongoing effectiveness of initiatives
- Structure initiatives around rewarding changes in behaviour, such as participating in new categories rather than rewarding existing behaviour which becomes margin eroding in the longer term



Head of 'Payback' Program
Big Bazaar
India

The head of the 'Payback' program at India's Big Bazaar has these three key lessons for growing retailers in the emerging markets:

- Start capturing data as early as possible to establish a baseline. Even if it cannot be analysed right away you will be able to see where your customers started and the impact of the initiatives at a later date
- Focus on creating a foundation program for the mass-market first; once you have that up and running then start tiering customers and providing differentiation – get the basics right first
- Structure your teams so that insights are shared. With limited data-driven processes it is important that the organisation communicates effectively



Mark Batenic
Global CEO
IGA
China

Mark Batenic, Global Chairman of IGA, provided the following advice for mid-scale operators:

- Develop management teams around local people. They have knowledge of the community, which can be used to substitute the lack of data analysis
- Leverage your smaller scale and local name to find alternatives to points programs and build a deeper emotional connection with customers, such as supporting local schools and charities or sponsoring local sports clubs



Philippe Giard
Regional Managing Director
of Food Retail, AS Watson
Hong Kong

Philippe Giard, Regional Managing Director of Food Retail for A.S. Watson Group, based on his experiences with GREAT Food Hall:

- In the realm of premium retailing it's not about points; rather it's about unique experiences the customer can't get elsewhere
- Be sure to target premium service only in the categories that require it and can afford it – for example, wine
- Have conversations with your customers to get feedback directly. The informal conversation in itself creates a better customer connection and in turn greater loyalty when you demonstrate you have listened



Jose Victor Paterno
President and CEO
Philippine Seven Corporation
Philippines

President and CEO of Philippine Seven Corporation, Victor Paterno, provides the following insights into increasing the value of target customers in the convenience sector:

- Site selection is key to getting the right footfall, finding sites where customers are a captive audience and are more likely to visit multiple times per day
- Find other reasons for customers to visit the store – bill payments, coffee, hot food
- Identify key impulse items to make slight increases in the basket value without seeming pushy. For example, mints at the counter

Glossary of terms and references

Country Codes:

- AU Australia
- CH China
- HK Hong Kong
- IN India
- ID Indonesia
- JP Japan
- KR South Korea
- MY Malaysia
- NZ New Zealand
- PH Philippines
- SG Singapore
- TW Taiwan
- VN Vietnam

Other Abbreviations:

- ATV Average Transaction Value
- CAGR Compound Annual Growth Rate
- CCRRC Coca-Cola Retailing Research Council
- CCRCA Coca-Cola Retailing Research Council of Asia
- GDP Gross Domestic Product
- POS Point of Sale
- ROI Return on Investment
- VIP Very Important Person

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