A Hathway + Punchh eBook:

How The Digital Experience Drives Customer Loyalty

HATHWAY | punchh

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01
Introduction

Introduction

Based upon behaviors formed during the pandemic, many **retailers are looking to expand the effectiveness of newly popular services** such as mobile ordering and curbside pickup.

What began as a temporary fix can and should become a permanent service, because it builds a stronger value proposition. The best way to reframe it is by creating a more engaging digital customer experience, one that encompasses every aspect of how consumers interact with the brand.

Of course, creating a digital experience that builds customer loyalty is no easy feat – it **requires a holistic understanding of today's customer expectations and the ability to anticipate future shifts**. With those insights in mind, brands will need to **adapt old technologies and invest in the right platforms and partners**. The last challenge, and possibly the biggest, is repositioning how convenience retailing has traditionally thought about loyalty – shifting from a mindset of points and discounts to one of **experience and connection**.

02

State of the Convenience Store Industry

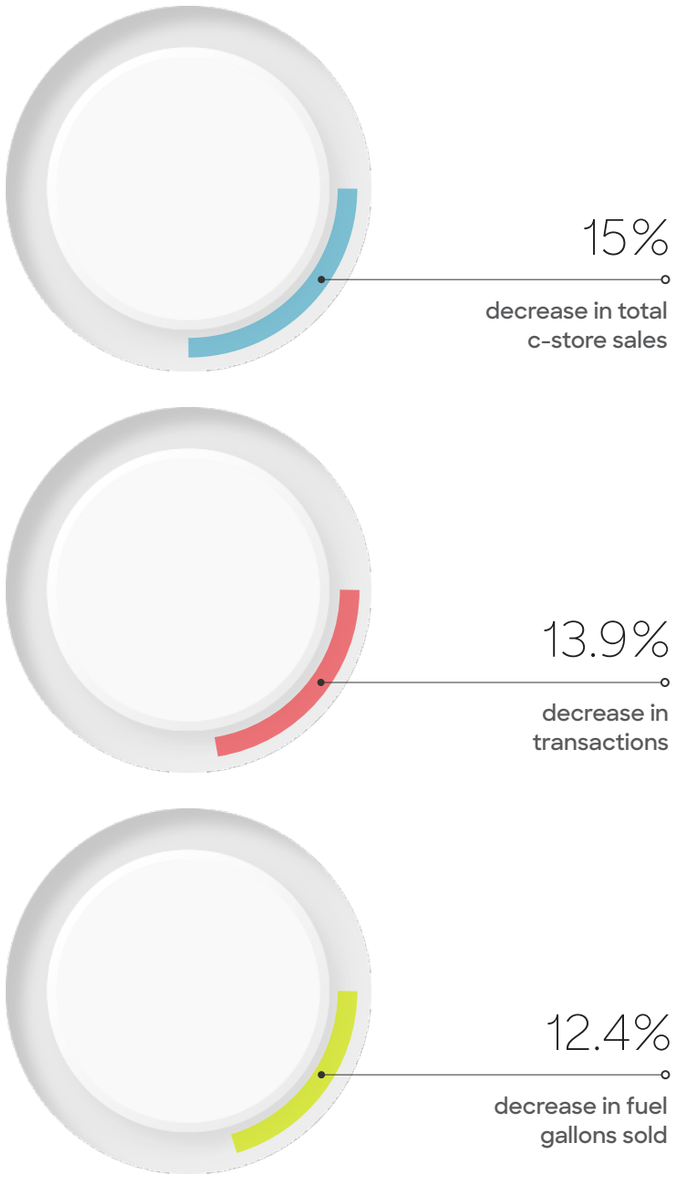
The State of C-Stores

When NACS previewed their State of the Industry data this past April, few were surprised to learn that the most closely watched data points were down in 2020:

Total sales decreasing by 15%, transactions by 13.9% and fuel gallons sold by 12.4%. Even with in-store sales up 1.5% and basket sizes increasing by 18.4%, that wasn't enough to keep over 2,000 stores from closing their doors permanently in 2020, nearly 5x more than the previous year.

"Our industry saw significant shifts in purchasing patterns in 2020, and these changes will likely accelerate in 2021, both in what products are sold and how they are purchased, especially as mobile ordering, home delivery, curbside pickup and contactless payment continue to gain in popularity," said NACS Vice Chairman of Research and Technology, Andy Jones, at the NACS State of the Industry Summit.

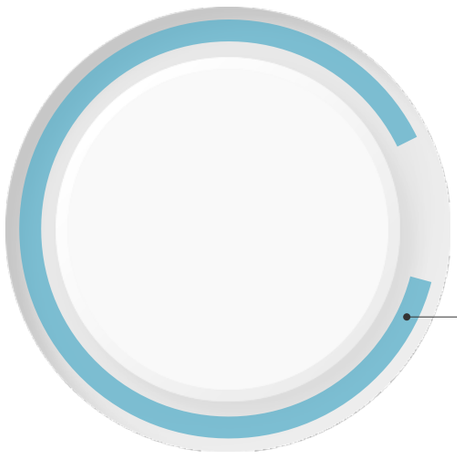
Jones continued, "The successful retailers will be those who continually adjust their offers as their customers redefine how they seek convenience."



The State of C-Stores

Jones's prediction is fully aligned with the results of a Convenience Consumer Study sponsored by Hathway and Punchh that sampled 1,200 c-store shoppers.

In the survey, 81% of respondents reported that they would choose one c-store brand over another if they felt the brand understood them better as a customer.



81%

would choose a c-store brand based on the brand understanding them better

And that, of course, is what modern loyalty strategies are designed to do: continuously meet the ever-changing expectations of customers through cohesive digital experiences and personalized communications.

03

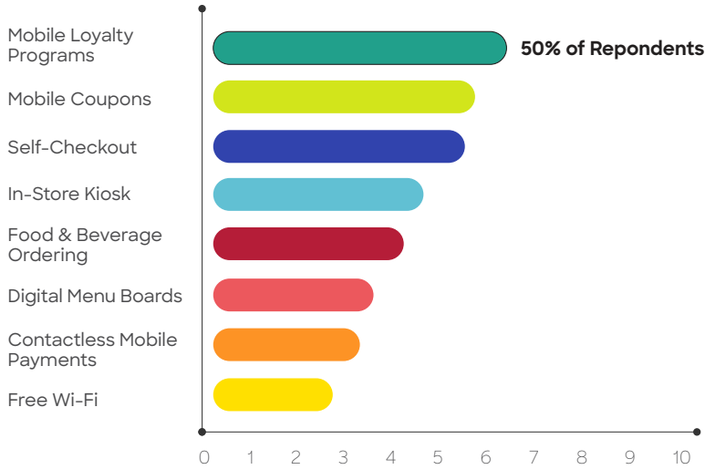
Ever-Evolving Customer Expectations

Customer Expectations Are Changing

Even prior to the pandemic, c-store customer expectations were **already rapidly evolving** due, in part, to industries outside of convenience retailing (e.g., restaurants) offering more sophisticated digital experiences and robust loyalty programs. Our consumer study also found that **77.38% of c-store shoppers find it important for a convenience store they visit to have a loyalty program.**

In fact, when ranking the top technology offerings a c-store could provide, mobile loyalty programs took the top spot for nearly 50% of respondents, and came in the top three for nearly 75%.

C-Store Technology Offerings Ranked Most Important



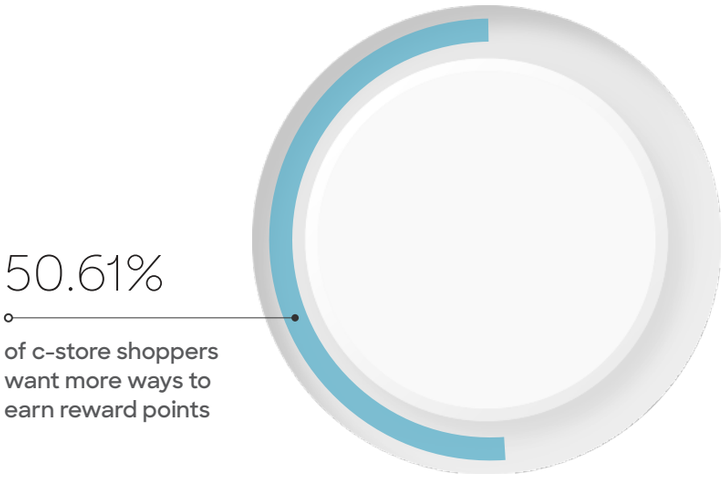
With that loyalty program, it comes as no surprise that **c-store shoppers are most interested in monetary benefits** – discounts, free products, cash back, etc. Of our respondents, **66.1%** reported being very or moderately likely to shop with a c-store brand that offers additional discounts and incentives with their rewards program.

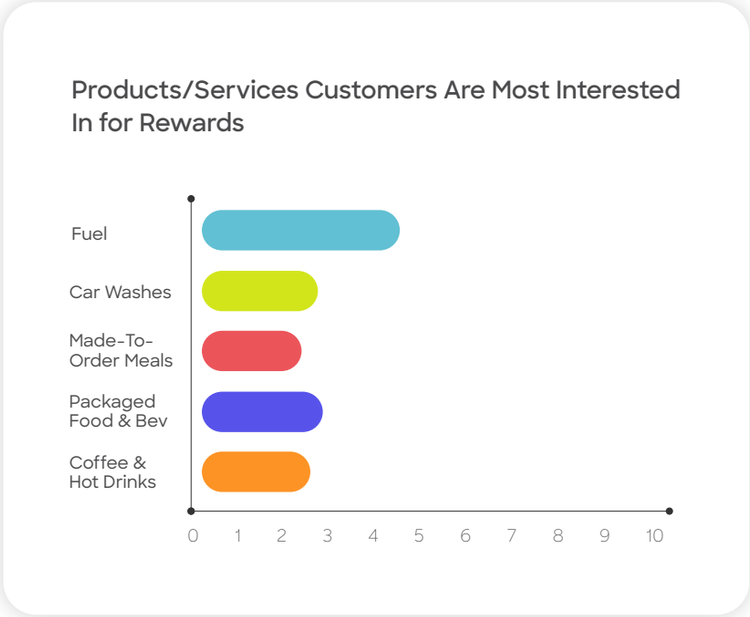
Benefits that directly affect consumer wallets also help some c-stores outshine their competition.

More than 64% of survey respondents said that the c-store loyalty programs that stand out from others offer greater discounts, and 50.61% pointed to having more ways to earn points as a way to differentiate from other loyalty programs.

Consumers also report an interest in loyalty programs that provide greater convenience and a sense of being valued – **benefits that go beyond just points and discounts**. They are looking for loyalty programs that cross all lines of business at a c-store. Survey respondents are most interested in rewards related to fuel, followed by car wash and packaged food and beverages. Having **three disparate programs – at the pump, the car wash and in-store** – causes friction for the customer and unnecessary inconvenience.

When asked what made them feel the most valued, we found that tailored promotions, a sense of added convenience, and the ability to select benefits rounded out the top three. These could also be categorized as **customization, convenience and personalization** – three of the main components that make up a modern loyalty program.





04
The Evolution of Loyalty

The Evolution of Loyalty: Rational vs. Emotional

In 1954, James Olds and Peter Milner conducted an experiment to explore the psychological basis of rewards. They found that **it's not actually the rewards that motivate action, but rather it's the *anticipation* of a reward** or the stress of desire that catalyzes action. Since then, as a result of predictability in most loyalty programs, brands have trained customers to wait for big sales.

This discount-centric approach not only incentivizes the wrong behavior (and cannibalizes revenues), but also fails to deepen customer relationships.

Rational Loyalty

This **transaction-based form of loyalty** is categorized as "Rational Loyalty" where consumers make purchases due to more logical considerations. With this type of loyalty, customers value the program benefits that play into their extrinsic motivators – or external incentives – like **rewards and discounts**. Of course, it's no surprise that shoppers list monetary-based benefits as the ones that they care about most, but it's also important to note that customers care *almost* as much about benefits that make them **feel special and recognized**. These more extrinsic motivators are what lead to the other category of loyalty: emotional loyalty.

Emotional Loyalty

Brands earn customers' Emotional Loyalty by **making them feel seen, valued and understood at an individual level**. This form of loyalty creates a bond between the brand and the customer that results in customer advocacy or **"brand love"**. It lives beyond a transaction and is cultivated through authentic, thoughtful moments.

There are a number of methods that brands can employ to cultivate emotional loyalty, such as:

- Tying their loyalty program into a good cause
- Giving members early access to new products
- Providing members with convenience-based benefits that save them time – such as order ahead

Brands want to inform these strategies with actionable data, and they're turning to customer satisfaction surveys more than ever before, through scoring like the **Customer Loyalty Index**. Algorithms turn customer responses into quantifiable data that helps brands see the total value they're delivering to customers, both in-store and online.

Focusing on Emotional Loyalty versus Rational Loyalty is a better path. They can avoid creating discount-based rewards programs and cannibalizing revenue from purchases that customers would have otherwise made at full price.

Discounting is a race to the bottom, and does not cultivate the brand love needed to create long-lasting customer loyalty.

05

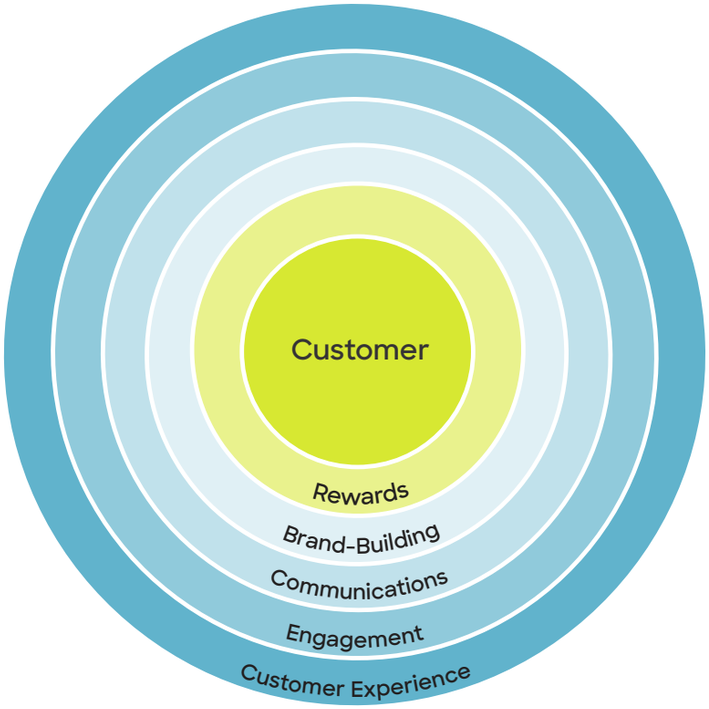
Loyalty Layers Framework

The Loyalty Layers Framework

Loyalty and rewards program are terms that are often used interchangeably, but **they're not the same thing**.

"Loyalty" is an outcome that is achieved through a holistic strategy, whereas a "rewards program" is just one aspect of such a strategy.

A clearly defined rewards program can often drive initial transactions with a brand, but for authentic and long-lasting customer loyalty, it takes a strategy with four additional components to help foster it: **Brand-Building, Contextually-Relevant Communications, Engagement, and Customer Experience (CX)**.



Layer 1

Rewards

There are **three main approaches to earning rewards**: fixed ratio, visit-based, and spend-based.

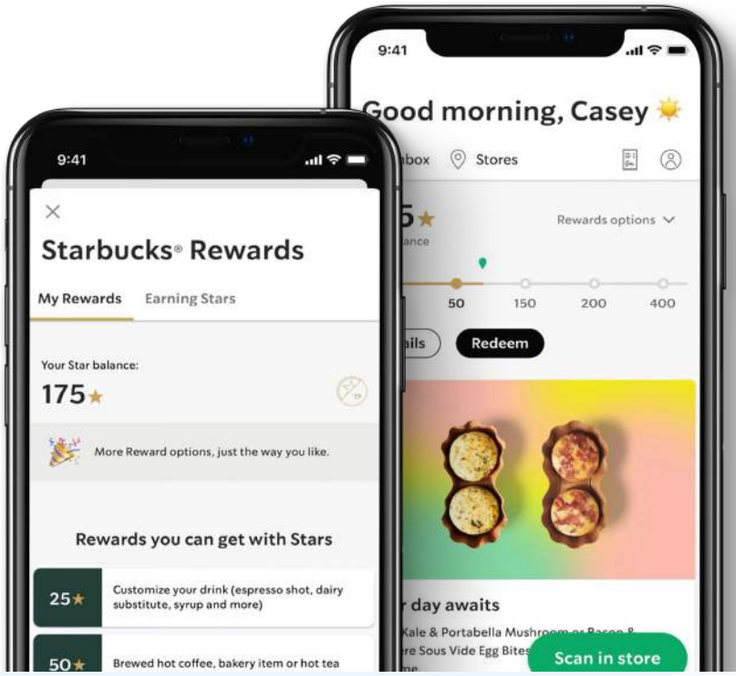
Fixed Ratio

Fixed ratio is **the traditional model that most c-stores have adopted** – basically, a "buy 5 get the 6th free" punch card strategy. Fixed rewards are an important element to any loyalty program as customers need to know what they are working toward. This ties into expectancy theory – the theory that an individual will behave or act in a specific way because they're motivated by a desirable result. And if that result doesn't meet a certain threshold of desirability, customers will not engage with the program.

Yet, **the primary problem with a fixed ratio approach is that they don't actually incentivize incremental transactions. They just cannibalize sales**. They also have a very high discount rate – if a customer only has to buy an item five times to get the sixth free, they are receiving a 17% discount rate. Other approaches can be equally motivating while only requiring a discount of 3 to 8%. Lastly, many studies have proven that variable incentives are much more likely to catalyze action. These motivators can take the form of **surprise-and-delight offers**, **challenges** (e.g., visit 5 different store locations in one month), **sweepstakes** or **unlocking rewards**.

Visit-Based

A program based on number of visits seems like a straight-forward approach to increasing purchase frequency but they **commonly lead to unfair rewards** and, even worse, **customers attempting to "game the system."** With a visit-based program, large baskets are treated as an equivalent to small baskets, removing the incentive to make purchases outside of what the customer already intended. Even truly loyal customers can't help but take advantage of the conspicuous flaws and loopholes in these types of programs. **Starbucks famously moved away from a visit-based to a spend-based program** to avoid what came to be the common practice of "transaction splitting," in which customers asked baristas to ring up multiple items separately to earn more of their coveted "stars." This slowed down traffic in store, caused operational issues and frustrated their rule-abiding customers.



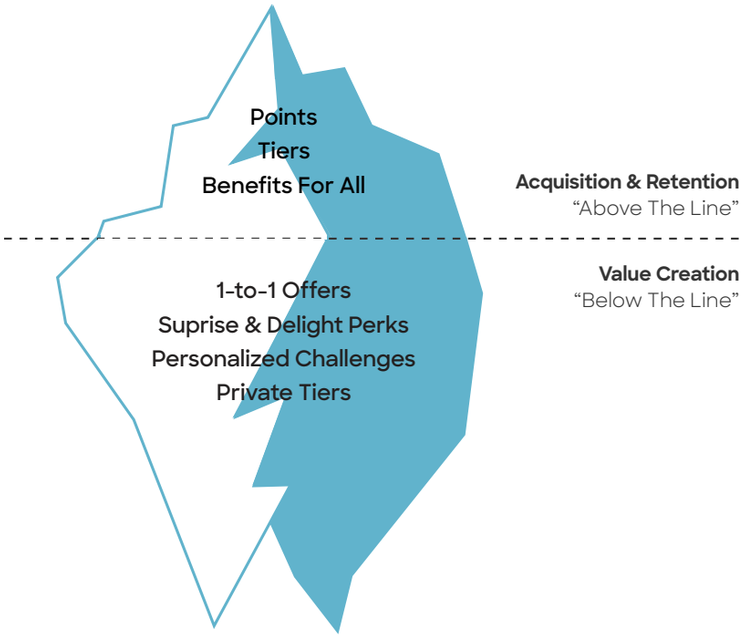
Spend-Based

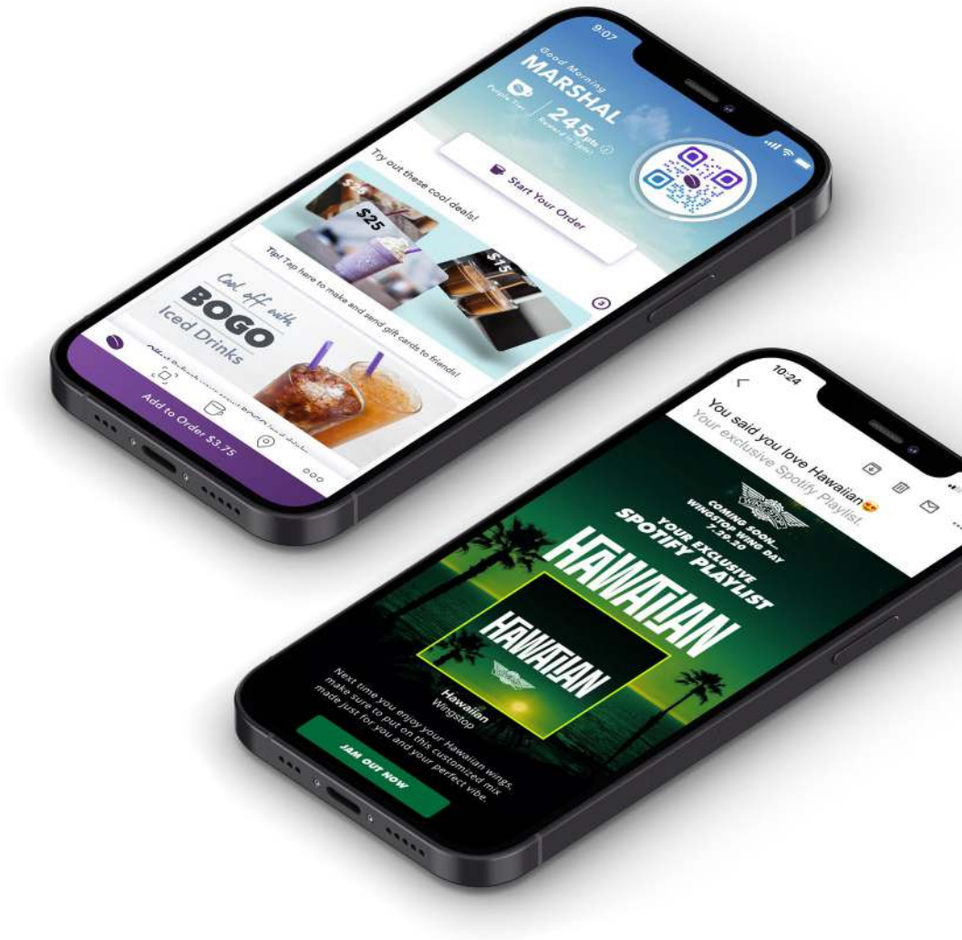
In industries like retail and restaurants, the **most common approach to earning rewards** is a spend-based program – gifting X points to customers who spend Y dollars. Earning points for spending is often referred to as an "above the line" or "explicit" approach to loyalty programs, and it's a great strategy for incentivizing enrollments.

Coffee Bean & Tea Leaf takes the spend-based approach, gifting new rewards members a free coffee or tea plus 20 bonus points if they make a purchase within a week of program enrollment. From there, all members earn points for every dollar spent and start working their way up their three program levels: Purple, Platinum and VIP.

Wingstop, on the other hand, has found that a "below the line" or "implicit" approach allows them to deliver more value and motivate incremental behavior. The technology-company-that-also-sells-wings utilizes segmented offers and communications that are more contextually relevant by using first-party data like past purchases and location.

Brands with more sophisticated loyalty programs are also **incorporating gamification** – leaning into the innate "intrinsic motivators" that all humans have, such as **achievement, competition, community and surprise**. Even an infrequent customer of Starbucks is likely familiar with the coffee company's challenges that delight customers and drive huge incremental sales. These tiers or levels tie into people's desire to progress or "level up."



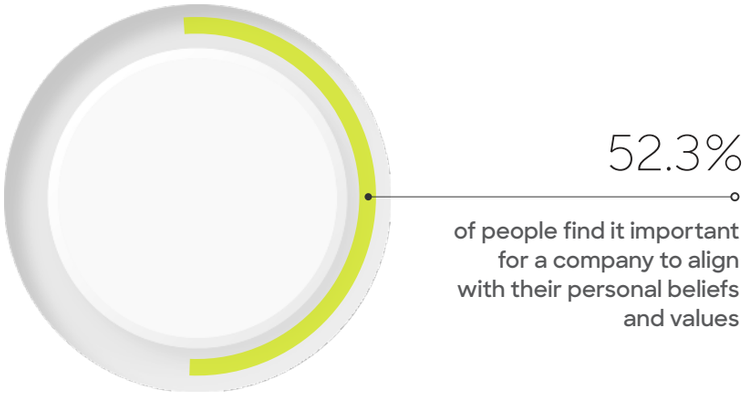


Layer 2

Brand-Building

To earn authentic customer loyalty, **it's necessary to build a brand that consumers identify with** – either because it aligns with their personal values or with who they aspire to be. In a consumer survey we conducted in 2018:

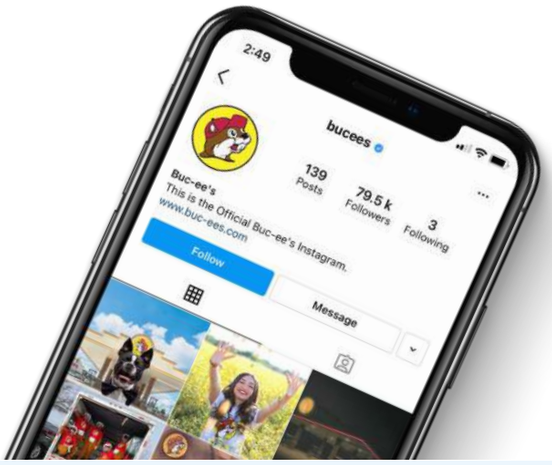
We found that 52.3% of people found it either *important* or *very important* that a company aligns with their self-image and/or their personal beliefs and values.



Apple's memorable and award-winning "Get a Mac" campaign from the early 2000s is a great example of brand-building by personifying products to help consumers easily relate to them as if they are human. In this example, the Mac was represented by a blue-jean-wearing "cool guy" while the PC was a man who donned an out-of-fashion suit and could be classified as the "unpopular nerd." They would go back and forth comparing the capabilities and attributes of the Mac and PC, with the PC often being frustrated by the Mac's superior capabilities. But it wasn't the benefits of Apple's system that resonated with customers. **It was really the look and attitude of the Mac** – a quick wit, laid-back disposition, and overall likability.

In the world of convenience, **Buc-ee's** serves as a great example of a brand-builder with a huge cult following that takes the motto "Everything is bigger in Texas" to a whole new level. Customers go crazy for their huge stores, famously clean bathrooms, beef jerky bars, and, of course, their lovable, buck-toothed beaver mascot. These **brand loyalists are never shy about pledging their allegiance to the Texas-based brand** – proudly displaying their "Follow me to Buc-ee's." bumper stickers on their vehicles and even donning Buc-ee's holiday pajamas for their formal Christmas cards.

With just **39 locations and over 74,000 Instagram followers, Buc-ee's has built an impressive social media following with about 1,900 followers per store**. To put that in perspective, c-store giant, **7-Eleven has just 45 Instagram followers per US location**. Buc-ee's has a much stronger connection to their customers, which has resulted in massive growth for the company.



Layer 3

Communications

Delivering communications to customers with contextual relevance – **the right message, in the right place, at the right time** – is key to building valued customer relationships. These personalized campaigns are powered by three types of first party data: observed, declared and calculated.

- **Observed data** is customer information that is collected through their behavioral or transactional activities. Tracking things like which emails a customer is opening or when they last made a purchase would fall into this category of first-party data.
- Any information that is provided by the customer themselves is considered **declared data**. For most brands, the majority of this data is collected at account signup.
- **Calculated data** is gathered by analyzing several observed and/or declared data points to create a score that can measure a variety of things. For example, RFM analysis uses recency, frequency and monetary value to determine a brand's "best" customers based on their spending habits.

With the right marketing tools, first-party and third-party data can be used to set up **evergreen campaigns** that trigger once a customer falls into a segment based on predefined attributes.

- Aimed at re-igniting customer engagement, **win-back campaigns** have a messaging sequence sent to past customers who haven't made a recent purchase, with the hope of bringing them back as a customer.
- **Bounceback campaigns** can be highly effective in driving frequency, as they are targeting active customers. These campaigns offer an incentive to make a future purchase immediately following a transaction.
- Brands running **welcome campaigns** run a series of content messaging that commonly includes some type of reward for joining, education around how to earn future rewards and an introduction to the brand.

Layer 4

Engagement

As uncovered in our proprietary research, **over 68% of convenience store shoppers only visit a c-store twice per week or less**, making it important to find ways to promote customer engagement between transactions. To keep their customers' attention, more progressive brands rely on activities like sweepstakes, contests, and digital "freebies."

Dairy Queen partnered with Coca-Cola and launched **The hAPPiest Sweeps Ever, a mobile gaming sweepstakes experience created with the goal of driving in-store traffic, purchases and new app downloads**. DQ fans were given an opportunity to win daily and weekly prizes – like trips to Universal Orlando Resort and an exclusive NASCAR VIP experience. Not only did they encourage engagement outside of visits to their restaurants through the sweepstakes, but they also **created a visceral, emotional connection with customers** through their campaign mascot, "hAPPy," and brought in elements of gamification by feeding hAPPy DQ menu items in order to enter the sweeps.

Last year, **Casey's found a creative way to support their communities and promote customer engagement by creating a contest that gave back directly to their customers' local schools**. When signing up for the Casey's Rewards loyalty program, guests had the opportunity to select the school of their choice for a chance to receive a donation. At the end of the contest, **Casey's donated $50,000 to 16 schools across 16 states** and earned some well-deserved brand love from their customers in the process.

Layer 5

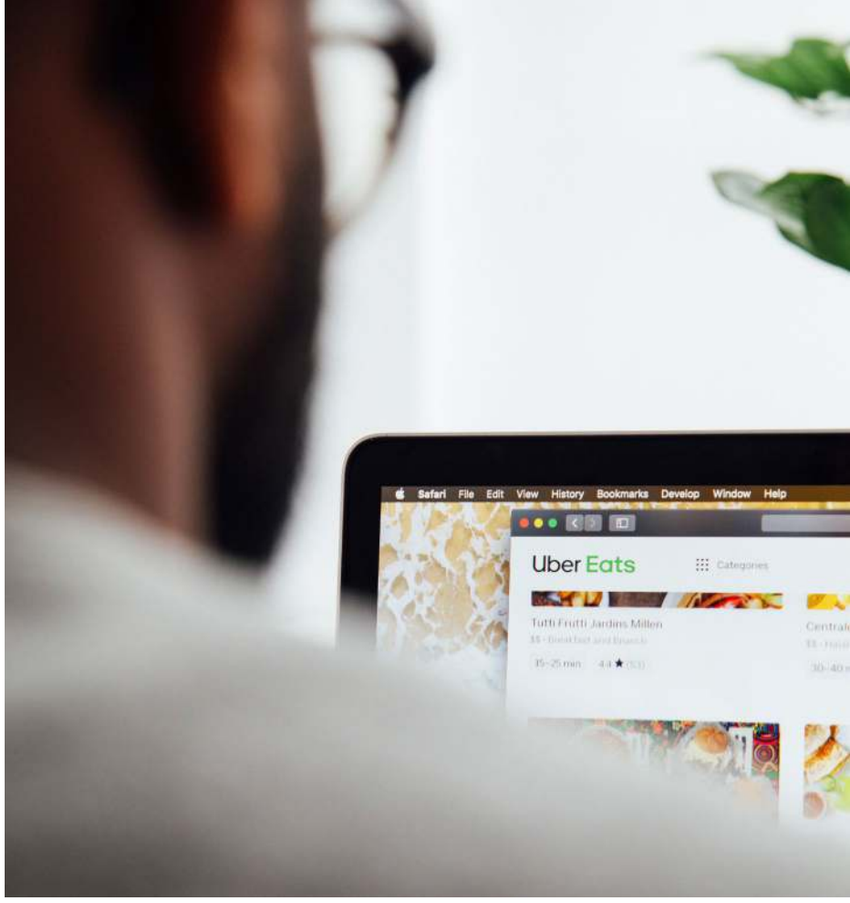
Customer Experience

Customer experience forms the outermost ring of the framework and that's because it's the most important of all. Even when the other four elements are in place, **if there is too much friction causing difficulty in redemption, customers won't participate – no matter how strong the customer's incentive is**.

And of course, the customer experience extends well beyond the rewards program. **Loyalty is the outcome of a great experience** – meaning that all touchpoints need to be considered when looking to deepen the relationship between customer and brand. **Convenience is king** when it comes to customer interactions – and consumers have demonstrated they are willing to pay more for it.

For example, third-party delivery companies like **DoorDash and Uber Eats** have seen massive success because they offer a convenient way to both order and access meals.

While the product may be the purchase driver, convenience is often the primary consideration when choosing where or how to buy.



06
Conclusion

Conclusion

Many brands struggle to come up with the secret sauce to making customers loyal to their brand, but that may be because it requires a **shift in thinking**.

Instead of asking, “How can we make customers loyal to our brand?” here’s a better question: “How can we show customers that our brand is loyal to them? Shifting that perspective can help brands be more authentic – **helping to produce strategies that speak to both Rational and Emotional Loyalty** and truly resonate with their customers.

For more information on how to build customer loyalty through digital experiences, please visit our websites:

wearehathway.com
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