

Positioning for the Adaptive Loyalty Revolution



IBM Watson Commerce

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As we've evolved our ability to learn more and more about our customers, loyalty programs have also changed to become even more effective in keeping the attention focused on individual brands with real-time technology, advanced analytics and compelling customer experiences.

Now with the arrival of cognitive learning that can access as much as 80% or more customer insight, their power as a retention tool has grown exponentially and provides you with the potential to literally transform your business through adaptive learning that shapes endearing, personalized customer experiences that deliver true incremental ROI.

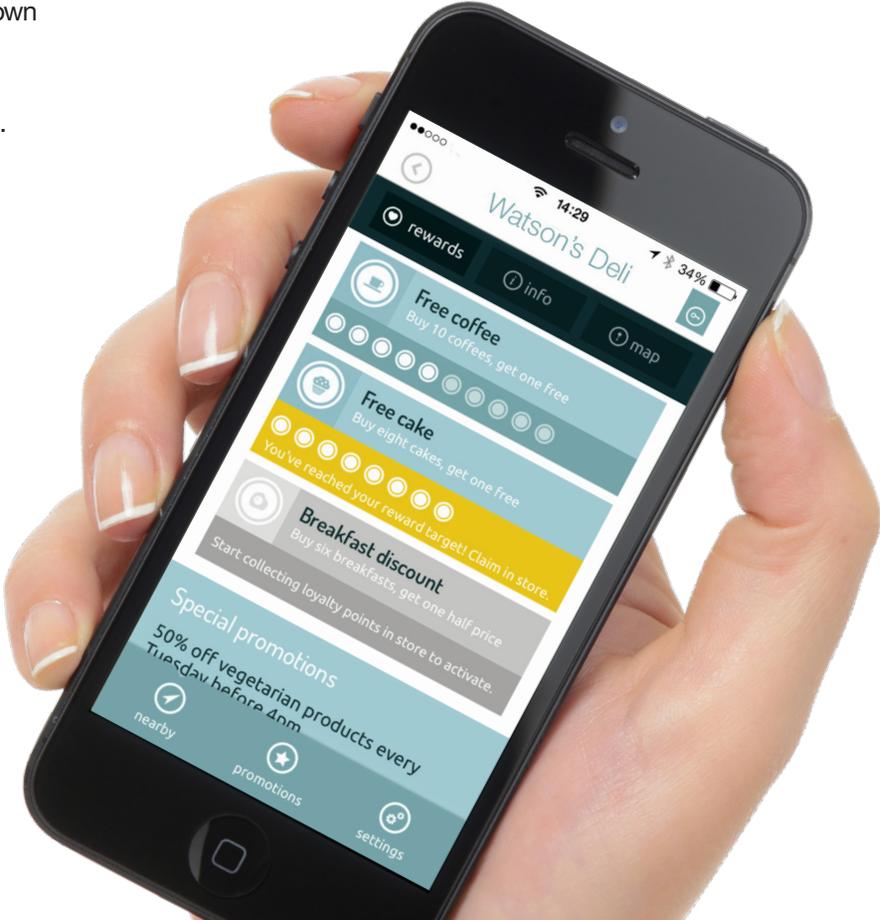
Are you positioned to take full advantage of the fast evolving loyalty program potential?

Brands Ripe for Retention through Loyalty Programs

Today, retail, travel and financial services are the industries that most frequently leverage loyalty programs. However, any industry vertical that has the following attributes can benefit from including one in their retention mix to complement their digital and direct marketing communications cadence:

- High volume of transactions
- Customer churn
- Expensive promotions
- High acquisition costs

Company types which are largely missing the loyalty program potential include franchises, insurance companies and automotive. On the other hand, high ticket items and those with longer sales cycles are less likely to realize the value of a loyalty program as their customer base is more influenced by market trends than rewards for frequent behaviors.



Changing Strategies in the Loyalty Arena

Loyalty programs need to be designed to handle such issues as managing the lifetime value of customers, addressing abandoned carts, preventing brand defections and optimizing the user experience to be relevant and drive key financials such as average order value and order profitability. Historically, multiple third party vendors have been involved in the client data gathering, analysis, optimizing and taking actions.

As more and more customer information becomes available for consideration, the need to keep all these vendors plugged in to ever expanding data streams becomes a more challenging task. This is causing many companies to rethink their strategy and seek ways to consolidate into a more holistic view of the business where one vendor can handle everything.



How Loyalty Became a Part of the Retention Mix

Loyalty reward programs were first introduced by American Airlines back in the mid-80s. At the time, it was a novel and unique way to reward their best customers and the market responded by mimicking American Airlines and offering their own programs. Soon everyone in the industry followed suit and instead of being a way to distinguish an airline, it became a cost of doing business and spread to other industries.

These early reward programs were based on observable customer behaviors such as flights flown, hotel stays or particular brand purchases. It encouraged customers to keep coming back to do more of the same but not necessarily incentivizing them to expand their buying behavior within a brand. Once they became ubiquitous, consumers no longer were motivated to enhance their degree of loyalty.

In the late 90s to early 2000s email marketing based on a customer's observable behavior offered a course change. Messaging started to get more relevant based on groupings of customers by segments which in turn began to influence future behaviors.

Two different types of loyalty programs emerged, a proprietary points program where rewards can only be used at an individual business and a coalition rewards network where a group of businesses form a partnership that allows customers to pool their rewards and redeem as desired throughout the network. Coalitions have shown to be effective for financial service such as credit cards, fuel and grocery type businesses. However, for retail, the result is different. When loyalty programs move to a coalition model, brands may initially delight their customers with the increased flexibility, but the retailer loses control and no longer can directly message to their customer based on program insight.

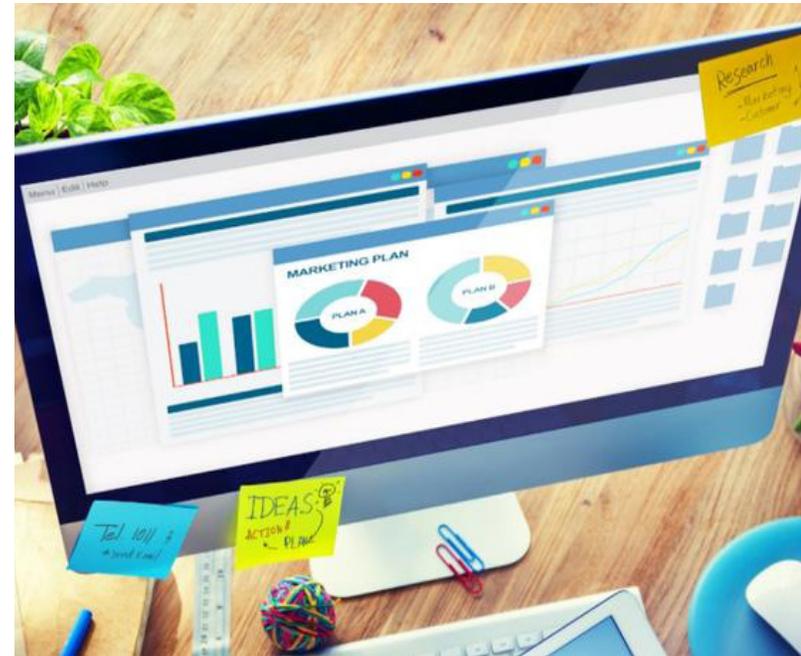
A geographic preference for a program is also a factor in determining which program will work best. In the U.S. proprietary loyalty programs are dominant. In Canada, the coalition programs are preferred by customers.

While some customers are promotionally sensitive and want their deals and discounts without anyone complicating the process, others are more open to guidance and may be influenced to act with an offer that carries strings attached. For instance, instead of offering a 25% off coupon towards any purchase, it may be offered to a customer that has been eyeing a high end, high margin item specifically for that piece of merchandise, appearing as the perfect deal for something they have been coveting. This type of promotion customization steers behavior in a more strategic way.

Brands are also moving towards more unique experiential type services as rewards programs make a customer feel special and part of an exclusive club. Rewards that tap into people's passions such as a unique concert backstage pass or an exclusive dining or travel destination tend to appeal to a higher income demographic or millennials who prefer experiences over products. Playing into aligning with someone's personal interest, a hotel customer engagement loyalty program may offer not just a free night at the property you are staying at, but rather a free night at the property of your choosing.

Making your 80 Look Like Your Top 20

With predictive analytics, the aspiration to be able to influence buying behaviors through personalization has become reality. While still transactional based, the focus of analytics has moved away from what your customer clicks on and buys today to what they don't and where the opportunity lies so brands are able to encourage their customers



to buy different, deeper and spend more broadly. Predictive analytics also provides insight on how to increase the frequency of customer visits, gives you a view into the behavioral clues the customer is leaving and alerts you to when they are on the path to abandoning their session or even planning to leave your business for good.

This enhanced insight, based on activity across the various channels, allows you to be more strategic with your loyalty program because of the deeper knowledge of your customer. Gaining visibility that reaches beyond the observable transactions, you now have access to market trends attributable to their lifestyle demographics to understand what they might be willing to do. You also can be aware

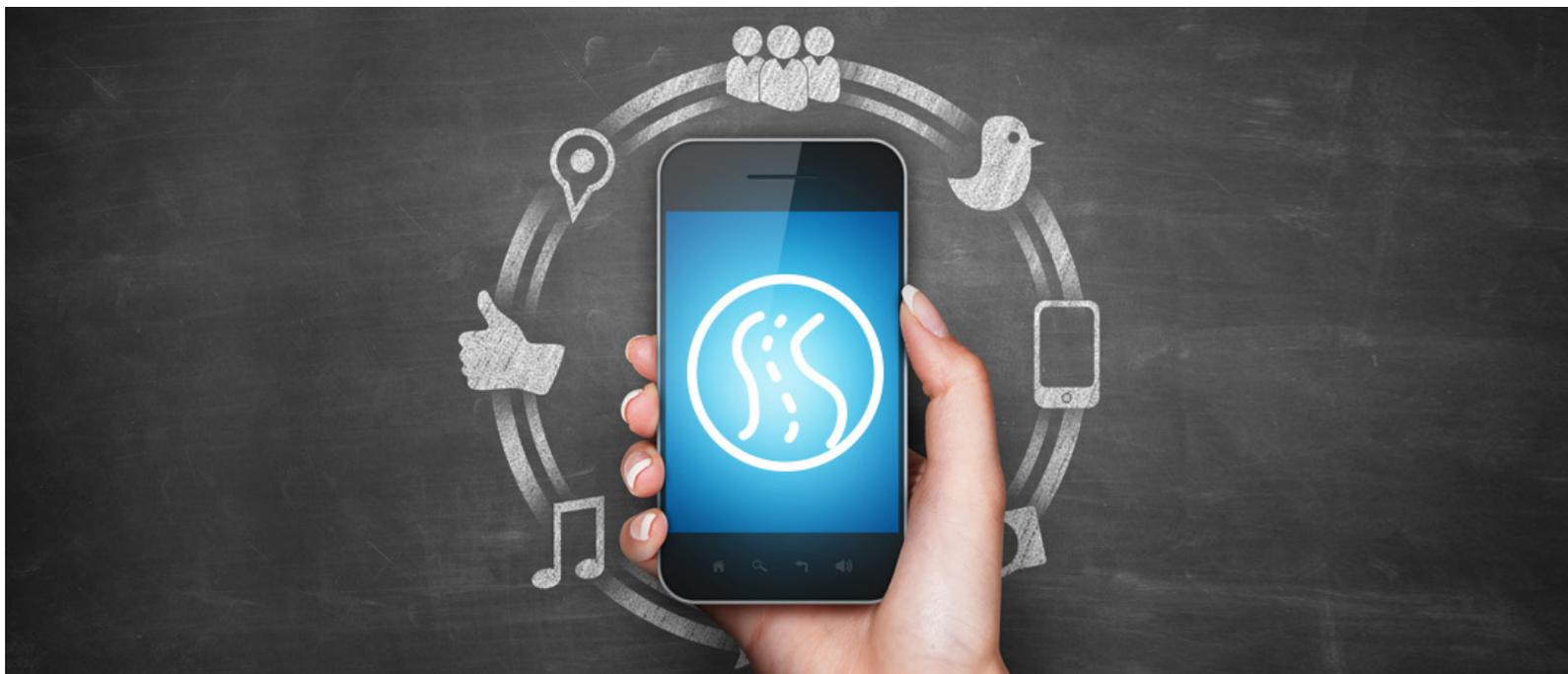
of the customer's lifestyle changes, so that you don't continue to promote products and services they've outgrown. For instance, if the children in the household have now entered school, you wouldn't want to still be pumping out a steady stream of diaper coupons to the parents. As a result, your marketing can be relevant during a longer period of time than traditional approaches and this will grow lifetime value measurably!

Customer insight can now be expanded beyond your customer's observable history to include history of other brands of this same customer, as well as what they are doing in real time across all of your channels. As a result, the data pool on any one customer keeps getting bigger and bigger which informs the analytics model so it becomes better at predicting, but can also start overwhelming the system with so much data. This is what gives rise to the need for machine learning which provides more analytical firepower to makes sense of all that information.

Impact of Mobile and Social on Predictive Analytics

The convenience of mobile encourages customers to quickly opt-in to loyalty programs and use digital loyalty cards. This allows brands to engage in real time with an offer at any location or access point the customer is using. For instance, an offer could appear on someone's smartphone while they are shopping instore and contemplating a purchase. Mobile provides rich, real time knowledge for your loyalty dashboards and allows your customers the ability to redeem their loyalty points no matter when or where they are planning to complete a purchase.

Mobile also allows for a greater sophistication in driving desired buying behaviors instore by activating GPS locators to know where your customer is at any given point during their visit. This combination of traffic segment, profit segment and destination segment provides the intelligence to understand why someone chooses to shop for cheese at Trader Joe's or the fresh juice counter at Whole Foods.



As a grocer, you may want to entice your loyal customers to try your salad dressings, a higher profit category and your customer insight is showing that this customer falls into a segment that is likely to be open to buying salad dressing. Thus, you may send them an offer for salad dressing as they are moving down that aisle to entice them to look closer.

The strategy is to encourage spending in a broader range of categories and increase the average order size all while improving the customer experience.

On the other hand, while social media posts and customer reviews have become influencers they are not yet directly attributable to purchases because their impact cannot be measured due to their unstructured format. Accurate measurement is essential for predictive modeling which is built on mathematical equations.

Arrival of Revolutionary Changes

To recap, we have talked about how programs were originally limited to rewards based on an individual's observed transactional behavior of a particular brand. Then predictive analytics emerged, which although is still based on transactional behavior, starts to predict what other opportunities the customer will be open to based on their classification in a particular customer segment.

With machine learning and unstructured data inputs such as social media posts, cognitive capability can now be infused into the customer engagement which provides us visibility into the individual customer's behaviors, likes and preferences. In other words, we have added social sentiment such as tweets, Facebook posts, Snapchat, etc. into the mix as well as other factors impacting buying decisions such as the weather to gain deeper insight.

This unstructured data which typically represents approximately 80%* of the known information about an individual combined with the 20% known through transactional data creates a more valuable profile of the customer which brings personalized customer engagement to a whole new level.

The magnitude of this change can be illustrated by the way GPS has evolved. Our first GPS systems used to guide us simply by telling us how to get from point A to B. Now our GPS systems incorporate real time traffic conditions based on accidents, stalls, construction projects, road debris and current weather.

When it comes to consumers, every aspect of observable individual transactions can now be influenced by all the clues of what is going on in their life based on social media posts and other unique behavioral data. It takes a powerful computer brain, capable of machine learning, to analyze all this data and surface only the conclusions that are valuable and actionable.

Cognitive Loyalty powered by Watson Commerce

The combination of Exchange Solutions' advanced loyalty solution available on the IBM WebSphere Commerce dashboard - with the cognitive power of IBM Watson Commerce creates powerful, market leading customer experiences. Brands are now able to build their business by continually architecting personalized experiences that have been adapted to who the customer is as an individual at that moment in time in order to make lasting favorable impressions. With Exchange Solutions deep domain expertise and IBM Watson Commerce technology, cognitive loyalty programs transform the massive amount of both transactional and unstructured data into knowledge that allows both customers and brands to enjoy a richer experience.

*<http://www.eweek.com/storage/slideshows/managing-massive-unstructured-data-troves-10-best-practices>



About Exchange Solutions

Exchange Solutions designs, builds and operates Smarter Loyalty programs that improve conversion, customer lifetime value, retention and profitability. Smarter Loyalty programs use data-driven, personalized incentives to drive valuable customer behaviors, while optimizing marketing spend. Smarter Loyalty is certified as Ready for Smarter Commerce and is the only fully-integrated customer engagement solution for IBM WebSphere Commerce. To learn more visit www.smarter-loyalty.com



About IBM Watson Commerce

Watson Commerce combines business expertise with industry-leading solutions embedded with cognitive capabilities, giving commerce professionals the power to create consistent, precise, personalized experiences that customers want and value. Watson Commerce understands, reasons and learns from the collective knowledge of the organization and business trends. Brands gain immediate insight to customer behavior and business performance and can make timely, informed decisions and measurable actions to capitalize on market opportunities before their competitors do. Start outthinking possibilities for your customers and your organization at ibm.com/watson/commerce.

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