

Intelligence

Loyalty 2019

A Multichannel Approach
to Visibility and Engagement

4 June 2019

EXCERPT

The Full Report is Available to Gartner Clients Only.



Executive Summary

Marketers continue looking to loyalty programs for growth and sustained consumer relationships, tailoring loyalty investments that enable holistic views of customers. Fifty-one percent of marketers within retail intend to increase loyalty program spending this year to improve program awareness and engagement through multichannel ad campaigns, and increase benefits that deliver real value upon participation.¹

Despite increased spending from brands, consumer engagement has reached its saturation point: over half of loyalty program memberships are inactive, and nearly a third of members abandon programs without capitalizing on collected rewards.² Brands are taking steps to bolster engagement through incentives, with 72% of indexed brands offering complimentary services and exclusive experiences. However, opportunities still exist for brands to create a virtuous cycle of program improvement, such as rewarding members for completing surveys or making peer referrals. Ultimately, best-in-class brands combine incentives with experiences and streamline messaging across digital channels to successfully re-engage customers and retain their businesses.

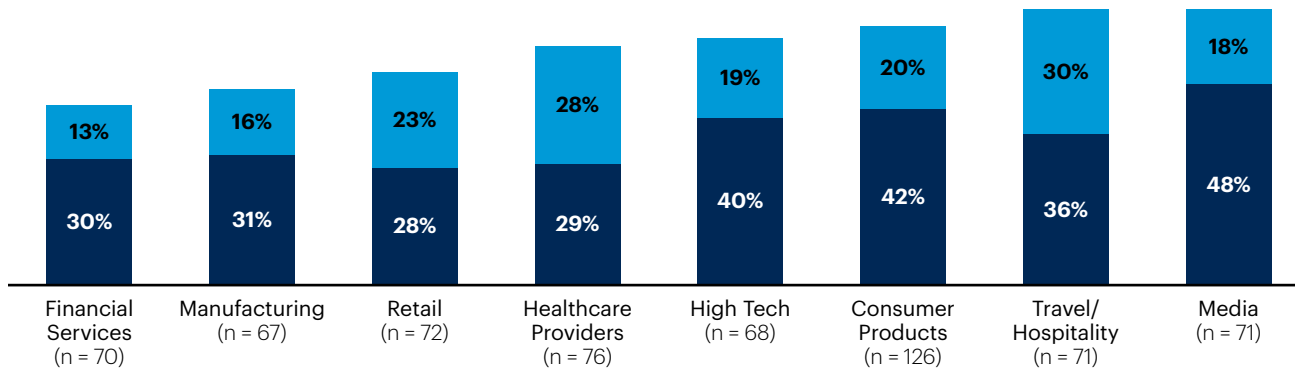
The third annual Gartner L2 Intelligence Report: Loyalty 2019 covers 187 brands across six sectors and evaluates their promotional tactics, loyalty program models, multichannel deployment and mobile integration.

1. "The CMO Spend Survey 2018-2019," Gartner.
 2. "There Are an Estimated 3.8 Billion Individual Loyalty Program Memberships in the U.S. More Than Half Are Inactive," Marketing Charts.

Loyalty: Planned Loyalty Spending Increases, by Vertical

Percentage of Respondents

November 2018 ■ Slight Increase ■ Significant Increase



Source: Gartner 2008-2019 CMO Spend Survey.

Key Questions

1. How can brands better gauge consumer sentiment to test the efficacy of their loyalty programs?
2. What new loyalty initiatives are brands implementing to underscore their unique value proposition to customers?
3. How do best-in-class brands maximize awareness of new or revamped loyalty programs?
4. How can brands maintain engagement with members through incentives, content and features?

Key Recommendations

1. **Can't Rest on Your Laurels:** Best-in-class brands stay ahead of the curve by using customer feedback to improve programs and test new or revamped programs through tactics like phased launches.
2. **Leveling Up Loyalty:** Brands must use levers like enhanced experiential benefits in tiers to drive customer loyalty and forge stickier consumer relationships.
3. **Don't Leave Awareness on the Cutting Room Floor:** Best-in-class brands leverage display content to incentivize program sign-ups and search marketing to convey program benefits and logistics.
4. **Coordination is King:** Brands must demonstrate effective orchestration of digital touch points to continuously engage their customers online and in store.

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Gartner L2 research is based on data-driven analysis. Our findings, rankings and recommendations are objective, unbiased and independent of membership.

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BRAND LIST

To construct the brand list for this report, sectors were selected based on a 20% or higher level of loyalty program penetration. In aggregate, Gartner L2 evaluated 187 loyalty programs across 6 sectors (activewear, beauty, big box, department stores, restaurants and specialty retail*).

Activewear

adidas	Quiksilver
Athleta	Reebok
Columbia Sportswear	REI
Crocs	Roxy
DC Shoes	Skechers
Eastern Mountain Sports	The North Face
Eddie Bauer	Toms
IZOD	
Kipling	
L.L.Bean	
Mountain Hardwear	
Nautica	
New Balance	
Nike	
Oakley	

Beauty

Aveda	Mugler
bareMinerals	Murad
beautycounter	NYX
Clarins	Olay
Clinique	Origins
Cover FX	Philosophy
Dermalogica	REN Skincare
Donna Karan	Sisley
e.l.f. Cosmetics	Skinceuticals
Estée Lauder	Smashbox Cosmetics
Fresh	StriVectin
Kate Somerville	Tarte
Kiehl's	Tata Harper
L'Oréal Paris	The Body Shop
Lancôme	Urban Decay
MAC Cosmetics	Viktor & Rolf Fragrances

Big Box

Academy Sports + Outdoors	Sam's Club
Ace Hardware	Sears
Advance Auto Parts	Sleep Number
AutoZone	Staples
Bass Pro Shops	Target
Bed Bath & Beyond	The Home Depot
Best Buy	Tractor Supply Co.
Big Lots	True Value
BJ's Wholesale Club	Walgreens
Cabela's	Wayfair
CB2	
Cost Plus World Market	
Costco	
Crate & Barrel	
CVS Pharmacy	
Dick's Sporting Goods	
Do it Best	
Dollar Tree	
Ethan Allen	
Fred Meyer	
Guitar Center	
Harbor Freight Tools	
Hobby Lobby	
HomeGoods	
IKEA	
Kmart	
Lowe's	
Meijer	
Michaels	
O'Reilly Auto Parts	
Office Depot	
Overstock	
Pep Boys	
Petco	
Petsmart	
Raymour & Flanigan	
Rite Aid	

Specialty Retail*

Abercrombie & Fitch	Soma Intimates
Aerie	Space.NK.apothecary
Aldo	Steve Madden
American Eagle Outfitters	Swarovski
Ann Taylor	The Container Store
Anthropologie	UGG Australia
Brooks Brothers	Ulta
Calvin Klein	Urban Outfitters
Catherines	Victoria's Secret
Charming Charlie	West Elm
Chico's	White House Black Market
Dress Barn	Williams Sonoma
Express	
Finish Line	
Foot Locker	
Forever 21	
Gap	
GNC	
H&M	
Hallmark	
Hollister	
J.Crew	
Justice	
Madewell	
Maurices	
Michael Kors	
J.Crew	
Justice	
Madewell	
Maurices	
Michael Kors	
PacSun	
Pandora	
Pier 1 Imports	
Pottery Barn	
Restoration Hardware	
Sephora	

Department Stores

Barneys New York	Lord & Taylor
Belk	Macy's
Bergdorf Goodman	Marks & Spencer
Bloomingdale's	Neiman Marcus
Debenhams	Nordstrom
Dillard's	Saks Fifth Avenue
DSW	Shopbop
Harrods	Stage Stores
Harvey Nichols	TJ Maxx
HauteLook	TK Maxx
House of Fraser	Zappos.com
Hudson's Bay	
JCPenney	
John Lewis	
KaDeWe	
Kohl's	

Restaurants

7-Eleven
Chick-fil-A
Chili's
Chipotle
Dominos
Dunkin'
McDonald's
Olive Garden
Outback Steakhouse
Panera Bread
Papa John's
Pizza Hut
Starbucks
Subway
Sweetgreen

*Includes brands within the fashion vertical.

Everyone in the Pool

Not all brands should pursue loyalty programs,¹ yet adoption grew 13% over the last year across the activewear, big box and department store sectors. Adoption reached 42% within activewear as brands like adidas and Reebok entered the loyalty game in hopes of developing stronger customer ties through experiential benefits.

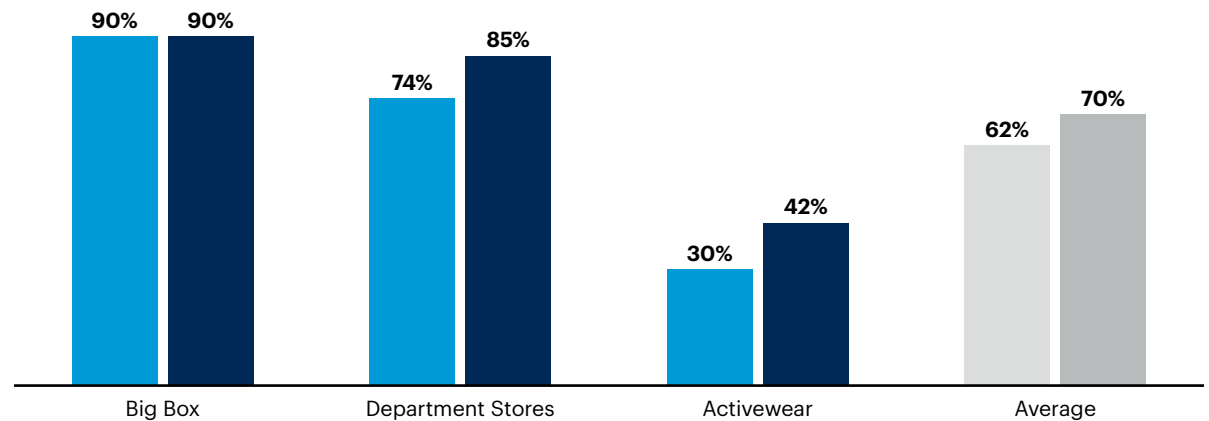
To safeguard the success of new or revamped programs, brands increasingly test loyalty programs through phased “soft” launches. After incorporating loyalty-like features into the site’s account, lululemon launched a new fee-based loyalty program, initially introduced to target markets prior to a full launch. The pilot program’s success determined the efficacy of the \$128 annual membership fee and the value consumers find in the program.² Similarly, big box retailer Target rolled out its new loyalty program in phases. Target Circle, renamed from Target Red, opened to additional markets earlier this year.³

Brands that do not have a formal loyalty program but have built out account infrastructures can also consider weaving loyalty-like benefits into accounts. In addition to capturing customer data, brands can still grow engagement through account benefits. High-end fashion brands — like Gucci and Diane Von Furstenburg, which sunset its official loyalty program in 2017 — have especially benefited from infusing loyalty elements into account features and marketing communications when loyalty programs are not fully aligned with marketing strategies.

1. [Gartner L2 Intelligence Report: Loyalty 2018](#)
 2. [“Lululemon Expands Test Loyalty Program With 128 Annual Fee,” CNBC](#)
 3. [“We Just Expanded Target Circle—And Millions Of Guests Are In For An Even More Rewarding Target Run,” A Bullseye View](#)

Loyalty: Adoption of Loyalty Programs, by Vertical

2017-2019 ■ Previous Digital IQ Index ■ Current Digital IQ Index



n = 174 Brands
 Source: Gartner L2 Intelligence Report: Loyalty 2019.

Strides in Both Visibility and Transparency

To increase loyalty sign ups and activity, awareness-oriented brands proactively harness various marketing assets as a means to both promote member on-boarding and increase program accessibility. Brands prioritize loyalty prominence on site and apps, with 72% linking to loyalty programs in the homepage header and 91% enabling enrollment via mobile app. In addition to visibility, brands more heavily rely on incentives to increase program enrollment, with 35% of brands providing incentives to prospective loyalty members, compared to last year’s 20%.

If brands support loyalty programs through active marketing, they must clearly convey member benefits to assuage consumer privacy concerns. Approximately

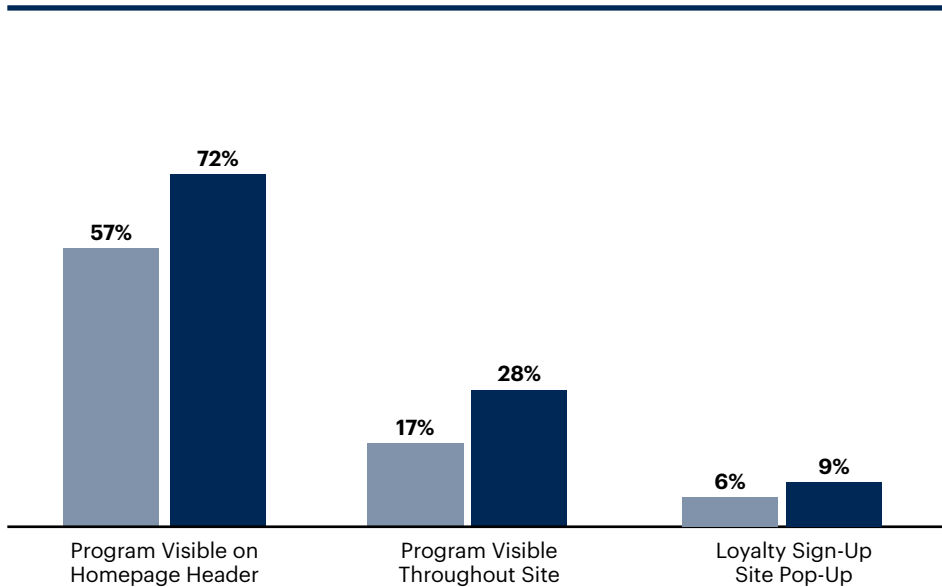
one-third of consumers would willingly exchange personal data for loyalty points, and 54% do so for cash rewards.¹ While nearly all analyzed brands clearly depict loyalty benefits on landing pages, 47% of the same brands do not clearly convey program benefits during account sign-up. However, 72% of brands analyzed year over year now list out program benefits or, at the minimum, link to a FAQ with further program details — a 40% year-over-year increase. As auto-enrollment into loyalty programs becomes more prominent (71% of brands employ tactic), transparent communication grows even more critical.

1. Gartner L2 analysis of Iconoculture data.

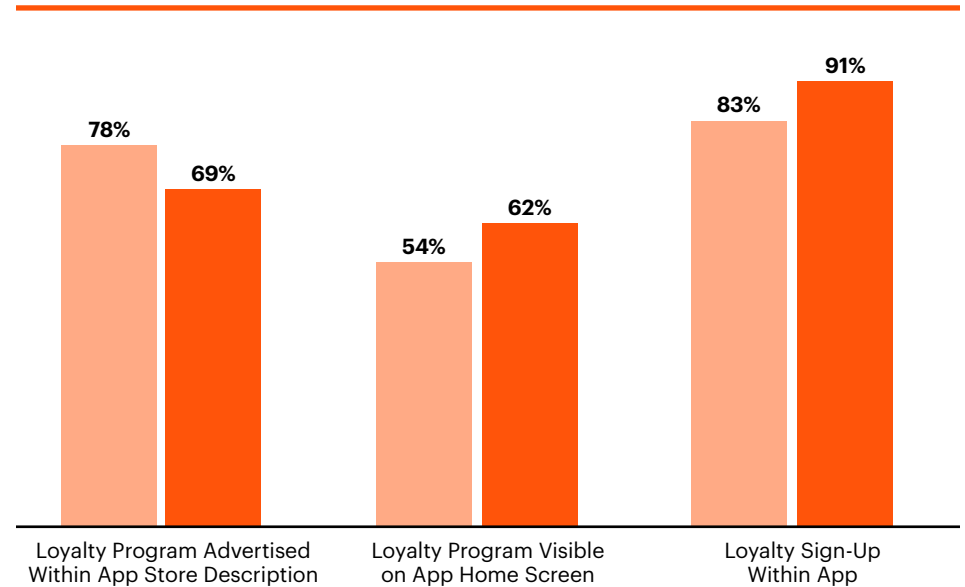
Loyalty: Promotional Tactics on Site and App

April 2019 ■ 2018 ■ 2019

Site Visibility



App Visibility



n = 82 Brands, 45 Mobile Apps (Includes Multifunctional US and Global Apps)
Source: Gartner L2 Intelligence Report: Loyalty 2019.

Re-Engaging at Every Step of the Way

While site assets, display advertisements and search features reinforce program awareness, email remains a critical CRM channel for brands to increase interactions with loyalty programs and foster engagement. Relevant loyalty emails accounted for 18% of over 200,000 email campaigns, with the highest share of campaigns dedicated to updating members on their current rewards status, welcoming new members and highlighting rewards exclusive to members. On average, campaigns with loyalty subject lines earned an average open rate of 18% — 13% and 16% higher than the open rates of overall campaigns and discount campaigns, respectively. Overall, recipients were highly receptive to email campaigns regarding new membership, birthdays, enrollment and points earned from purchases, which all garnered average open rates greater than 20%.

From a sector perspective, restaurant brands outpace other industries in terms of loyalty campaign deployment, devoting a third of email campaigns to loyalty content

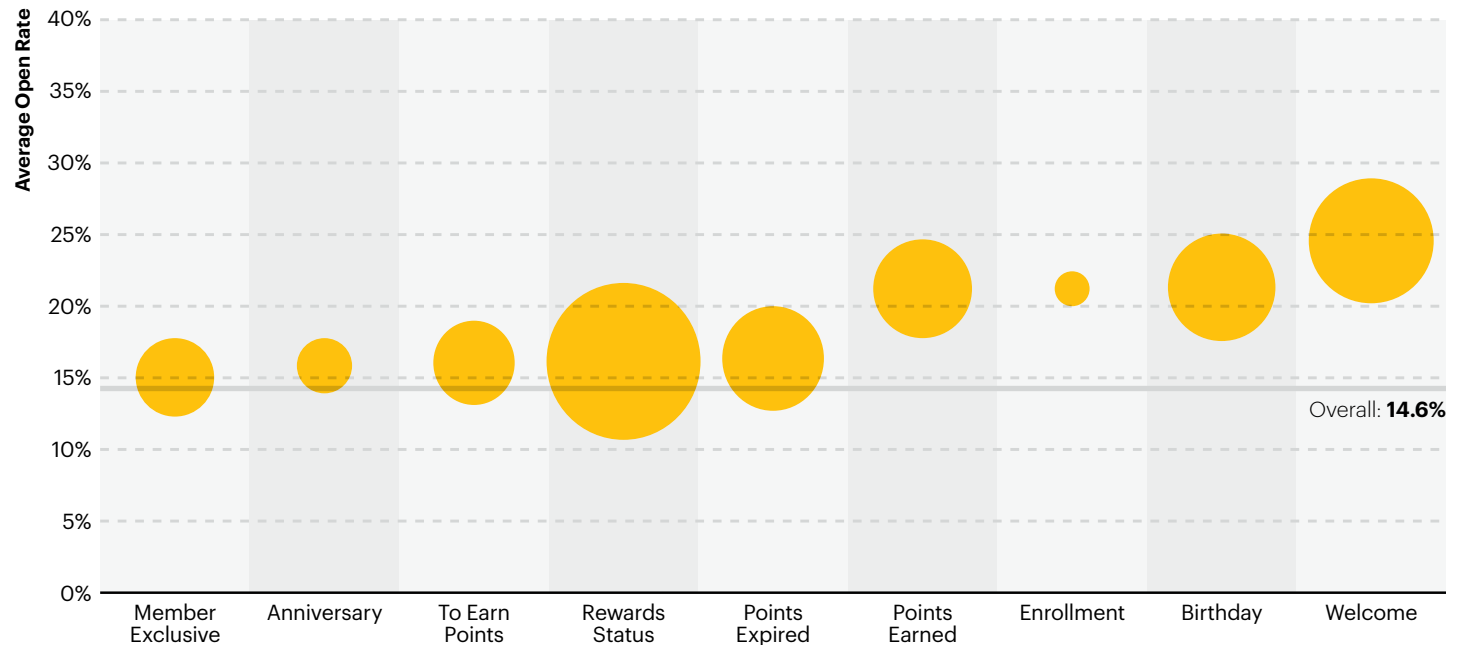
and earning the highest open rate lift (43%). These brands also take a targeted approach with loyalty emails, distributing content to 4% of total recipients. They primarily focus on re-engagement emails, specifically emails regarding member status and points earned from purchases. Similar to restaurants, big box retailers have a higher-touch email strategy with an 18% share of loyalty email campaigns. Retailers like PetSmart and Rite Aid have a holistic re-engagement email strategy, dedicating the majority of campaigns to their loyalty programs and deploying a variation of email subject lines to address every stage of the member lifecycle.

While beauty brands exhibit a relatively low deployment of loyalty campaigns, several brands diverge from the pack. Lancôme and Kiehl’s dedicate 21% and 19% of email campaigns to loyalty, respectively, and see a positive lift to overall open rates. In comparison, beauty retailers Ulta and Sephora have built out loyalty ecosystems and together dedicate approximately 40% of email campaigns to loyalty content.

Loyalty: Average Email Open Rate and Campaign Size, by Subject Line Topic

4Q18-1Q19 ●●● Size of Campaign Count

n = 37,758 Email Campaigns
 Note: Email categories are not mutually exclusive.
 Source: Gartner L2 analysis of eDataSource data.



Streamlining Loyalty App Usage

Kohl's

An unwieldy loyalty program with a fragmented integration strategy can result in lower levels of engagement, as consumers prioritize streamlined rewards accumulation and redemption.¹ Apps serve as a key driver of loyalty participation, especially for brands with high-frequency purchases. Brands are capitalizing on app capabilities to supplement the loyalty experience, and 78% allow members to access loyalty programs directly through apps. However, there are still additive loyalty-centric app components that brands can integrate, including features that highlight earning opportunities and track rewards.

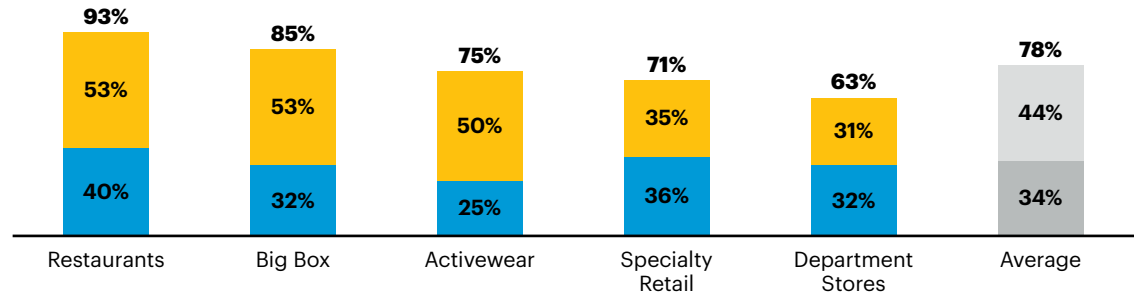
While a majority of brands analyzed across sectors make loyalty programs accessible within apps, just over a third display rewards highlights on the app home screen, with restaurants leading at 40% adoption. Nearly half of consumers are more likely to use loyalty programs if rewards are easy to understand, track and redeem, making rewards trackers and automatic redemptions requisite features.²

Best-in-class brands prioritize both app visibility and omnichannel functionalities. Just over a third of analyzed brands provide digital loyalty cards, and 19% of the same brands provide loyalty card integration into Apple Wallet or Passbook. In addition to having a pronounced loyalty program and digital loyalty card, Kohl's fully integrates rewards into purchases with location-triggered notifications for promotional offers and seamless application of offers at check-out through a quick response (QR) code scanner. Both of these loyalty characteristics allow Kohl's to facilitate rewards redemptions and establish a bridge between the online and offline loyalty experience.

1. "Loyalty Survey," Gartner's Consumer Insights Research Team.
2. Ibid.

Loyalty: Share of Apps With Loyalty Program Access and Rewards Tracker

April 2019 ■ Access to Loyalty Program Within App ■ Rewards Tracker on App Home Screen

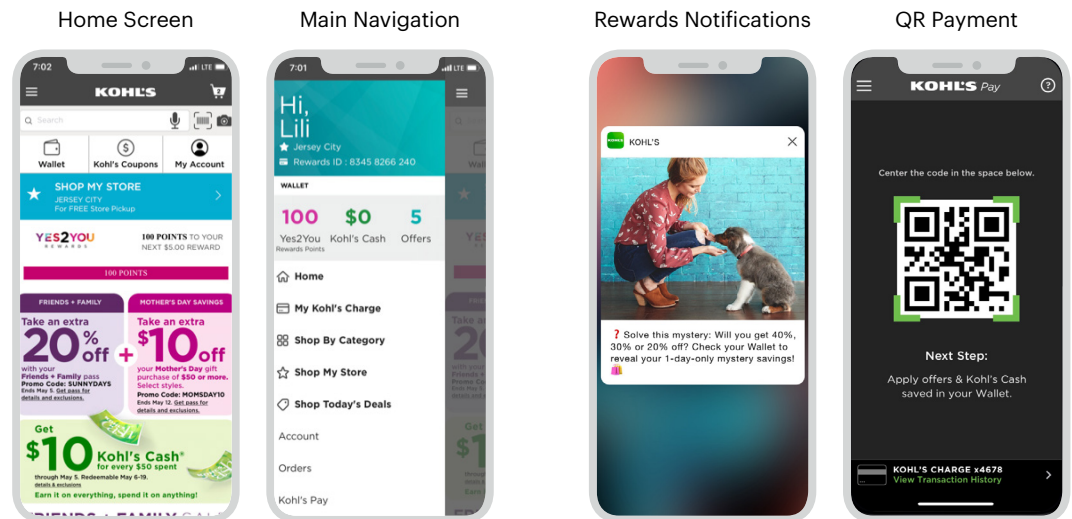


n = 104 Mobile Apps (Includes Multifunctional U.S. and Global Apps)
Source: Gartner L2 Intelligence Report: Loyalty 2019.

KOHL'S

High Accessibility

Integration Into Purchases



Kohl's app gives its loyalty program prime real estate, allowing users to track their points on the home screen and main navigation menu. To streamline rewards redemption, Kohl's sends personalized promotional reminders to app users and enables QR payments.

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