Will Your Customers Pay for a Loyalty Program?

2019 PREMIUM LOYALTY STUDY

CLARUS commerce
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SECTION 1

A Modern Approach to
Cultivating Customer Loyalty
Locking down customer loyalty is more difficult than ever — and greater access to the internet is a big reason why. Bombarded with offers from traditional retailers as well as those in the ever growing direct-to-consumer (D2C) industry, today’s consumers have virtually unlimited choice. In this age of the customer, differentiation by product alone is no longer enough. If price or availability becomes an issue, consumers can switch between retailers with just the touch of a button.

Many retailers view loyalty as just a program to pay lip service to — something to simply set and forget. But when it comes to building true loyalty, every moment matters.

### Premium Loyalty Defined

Premium loyalty programs provide customers with instant, 24/7 access to top-tier benefits. Instead of earning discounts or coupons after they’ve completed a transaction, a retailer’s most dedicated customers can pay an annual or monthly membership fee to get what they want, when they want it. Premium loyalty members engage with your brand more often and ultimately develop deeper, more meaningful relationships that translate to increased brand advocacy.

### Comparing Premium and Traditional Loyalty Programs

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<th>PREMIUM</th>
<th>TRADITIONAL</th>
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<tbody>
<tr>
<td>What it takes to earn benefits</td>
<td>Monthly or annual fee in exchange for immediate, 24/7 exclusive benefits</td>
<td>Accumulate points with each transaction to earn benefits over time</td>
</tr>
<tr>
<td>Intended audience</td>
<td>The top 20% of your customer base</td>
<td>Casual shoppers</td>
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<tr>
<td>How it helps</td>
<td>Drives increased engagement among your best customers while also paving the way for greater brand advocacy</td>
<td>Attracts shoppers who are looking to score a great deal, no matter the retailer</td>
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Retailers need to cater more closely to the unique needs and wants of their customers across multiple touch points. Providing a top-notch experience at every opportunity will help you earn the loyalty of your best customers, moment by moment. To stay one step ahead of the competition in this new age of loyalty, leading retailers have embraced premium loyalty.

Based on a survey of 1,000 consumers, the following report analyzes what customers expect from their favorite retailers, and how you can adjust your strategies to attract and retain long-term customers in an age when loyalty is hard to come by.

Push for Premium

Nearly 70% of consumers agree their loyalty is more difficult for a retailer to maintain than ever before, while 88% agree retailers could do more to earn their long-term loyalty. Adapt to the increasingly competitive loyalty landscape with a premium program that enables you to make emotional connections with your best customers.
SECTION 2

Premium Loyalty:
A True Differentiator
Embracing Premium Loyalty

Premium loyalty’s popularity is on the rise. More than half of all survey respondents (58%) currently belong to a premium program while just under two-thirds (65%) of those who belong to a paid loyalty program plan to join additional programs in the next 12 months. Perhaps even more importantly, 31% of consumers say they have yet to join a paid loyalty program because the retailers they shop with don’t offer them.

Not only do premium loyalty programs appeal to the preferences of today’s consumers, but they also drive higher engagement than traditional loyalty programs. More than half of all premium loyalty participants shop with that program’s retailer at least once a week. Better yet, premium loyalty members are twice as likely to use their programs than

87% of consumers who are satisfied with the special benefits offered by a retailer’s paid loyalty program will likely choose that retailer over a competitor that is offering a lower price.

Consumer participation in paid loyalty programs

<table>
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<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>58%</td>
<td>Belong to a paid program</td>
</tr>
<tr>
<td>31%</td>
<td>Have yet to join a paid loyalty program</td>
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</table>
those who participate in traditional programs. By increasing engagement and touch points, premium loyalty programs ultimately enable retailers to build loyalty that extends beyond the coupon. Nearly nine in 10 (86%) consumers who are satisfied with the special benefits offered by a retailer’s paid loyalty program will likely choose that retailer over a competitor that is offering a lower price.

In addition to increasing engagement and putting an end to the “loyalty to the coupon” phenomenon, premium loyalty programs also open the door for a boost in brand advocacy from your best customers. In fact, 84% of consumers are likely to recommend a retailer to friends or family when the retailer offers a paid loyalty program with benefits that are valuable.

Premium loyalty programs work well because they’re targeted to your top customers — the top 20% to be specific. This group of customers is already responsible for 80% of a retailer’s sales on average. And with the creation of a premium loyalty program, they’re likely to spend even more. On top of that, these customers are also most likely to advocate for your company to friends and family.

The 80/20 Rule

Your premium loyalty program is all about giving the best of your brand to your best customers. Already responsible for driving 80% of your organization’s sales, the top 20% of your customer base is poised to take the most advantage of premium loyalty. Create your program based on the needs of your most committed customers.

Percentage of free vs. paid programs consumers use on a monthly basis

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<tr>
<th>FREE PROGRAMS</th>
<th>PAID PROGRAMS</th>
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<tr>
<td>15% — Use 100% of their free programs on a monthly basis.</td>
<td>29% — Use 100% of their paid programs on a monthly basis.</td>
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<tr>
<td>18% — Use 75% of their free programs on a monthly basis.</td>
<td>14% — Use 75% of their paid programs on a monthly basis.</td>
</tr>
<tr>
<td>31% — Use 50% of their free programs on a monthly basis.</td>
<td>24% — Use 50% of their paid programs on a monthly basis.</td>
</tr>
<tr>
<td>32% — Use 25% of their free programs on a monthly basis.</td>
<td>28% — Use 25% of their paid programs on a monthly basis.</td>
</tr>
<tr>
<td>4% — Use 0% of their free programs on a monthly basis.</td>
<td>5% — Use 0% of their paid programs on a monthly basis.</td>
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Among the many retailers taking advantage of the opportunity for greater engagement and brand advocacy is Restoration Hardware, which is now referred to as RH. In April 2016, the home-furnishings company launched its premium loyalty program — RH Grey Card, which is now called the RH Members Program. For just $100 annually, members enjoy 25% off all full-price purchases and 10% savings on all sales items — not to mention complimentary interior design services and early access to clearance events. With more than 375,000 members, the program’s unique combination of benefits is responsible for 95% of the retailer’s sales¹ as well as a steady increase in brand advocacy. Rather than jumping ship for a better deal elsewhere, RH Members Program members are inviting friends and family to reap the rewards of a loyalty program that’s catered to their specific needs and preferences.

¹Please note, mentions of a brand are not indicative of an affiliation with Clarus Commerce. Examples of specific brands have been included to highlight the current state of the premium loyalty industry.

¹RH 4th Quarter and Fiscal 2017 Financial Results

Capitalize on Consumer Interest

Most consumers are willing to give premium loyalty a shot. In fact, more than 71% of consumers who do not currently belong to a premium loyalty program would join one if their favorite retailers offered them and the benefits were valuable.

Taking the Next Step

Free loyalty programs can be a great stepping stone into premium programs. Although they offer different benefits, the two types of programs often coexist to serve your entire customer base. Nearly three in four consumers (73%) are likely to invest in a retailer’s paid loyalty program if they already belong to that retailer’s free loyalty program.
Providing Real Value to Your Most Loyal Customers
Satisfying Consumer Expectations

Most consumers are willing to pay for membership in a premium loyalty program — assuming the benefits are valuable.

Position your premium loyalty program for success by providing real value to your members. How? By striking the right balance between transactional and experiential benefits.

For most retailers, finding that balance means moving beyond the traditional points model. Although points are a proven way to track the progress of each program member, they typically require users to make purchases and earn benefits over an extended period of time. Delays in the delivery of loyalty program benefits can demotivate customers from engaging with a retailer on a more regular basis.

At a time when consumers can make a reservation or catch a ride within a matter of seconds, patience is often tough to come by. That’s why premium loyalty programs must offer immediate and frequent transactional benefits. Six out of 10 consumers expect to see benefits from a paid loyalty program at least once a week.

How often consumers expect to see benefits from paid loyalty programs

<table>
<thead>
<tr>
<th>Frequency</th>
<th>15%</th>
<th>24%</th>
<th>22%</th>
<th>17%</th>
<th>16%</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected benefits</td>
<td>Every day</td>
<td>Every few days</td>
<td>Once a week</td>
<td>Once every few weeks</td>
<td>Once a month</td>
<td>Less than once a month</td>
</tr>
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Factors influencing consumers’ decisions to renew paid loyalty programs, ranked

<table>
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<tr>
<th>Frequency of benefits</th>
<th>40%</th>
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<tbody>
<tr>
<td>Cost</td>
<td>39%</td>
</tr>
<tr>
<td>Length of commitment</td>
<td>8%</td>
</tr>
<tr>
<td>Degree of personalization</td>
<td>7%</td>
</tr>
<tr>
<td>Degree of exclusivity</td>
<td>6%</td>
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</tbody>
</table>
Digging Deeper with Premium

By offering 24/7 access to perks and experiences, premium loyalty programs promise to usher in greater engagement with customers who are often used to waiting for loyalty program benefits to kick in. Take full advantage of this increase in engagement by referencing the extra data coming in about your best customers. This added context should help you better understand their needs and wants, and ultimately tailor your offerings to each specific customer.

Instead of guessing which specific benefits will make the greatest impact on your customers, you can lean on data gathered over the course of several loyalty moments. Take each interaction with a customer into account as you build out new benefits and experiences. Making an effort to personalize each perk with insight gathered from frequent customer engagement will boost your chances of enticing premium program members and earning their loyalty moving forward.

Perks that motivate consumers to invest in paid loyalty programs

- 67% Instant discounts that can be used whenever you shop
- 61% Faster, free shipping
- 56% Free giveaways
- 49% Surprise rewards
- 43% Exclusive deals (i.e. access to pre-sales)
- 38% Faster shipping
- 30% Personalized offers
- 22% Exclusive in-store experiences (i.e. a personal stylist)
- 21% Exclusive access to in-store events
- 9% Nothing would motivate me to invest in a paid loyalty program

Clarus Commerce | Achieving Success with Premium Loyalty
Meanwhile, 39% say frequency of benefits has the biggest influence over their decision to renew a paid loyalty membership.

In addition to a need for speed, premium loyalty members expect to be treated like VIPs. The top three benefits that would motivate a consumer to invest in a paid loyalty program include: instant discounts that can be used whenever they shop (67%), faster, free shipping (61%) and free giveaways (56%).

In addition to a mix of transactional benefits that provides real value for your members, leverage available data to develop experiential benefits that truly differentiate your program. Since customers are more inclined to engage with a premium loyalty program that offers benefits every day of the year, you’ll gain access to more data about your best customers than ever before.

Experiential benefits can be anything from additional services like tailoring or personalized styling to events like hikes or running groups. The key is creating customized perks and experiences that differentiate your business. Don’t just offer the same perks that your competitors offer. Your program should be unique to you and your customers.

How Lululemon Gained a Leg Up On the Competition

In need of a little inspiration as you build your premium loyalty program? Look no further than Lululemon Athletica. The Canadian athletic apparel retailer has successfully combined transactional and experiential benefits to create one of the top premium loyalty programs in its industry.

While the $128 membership fee may be on the higher end of the spectrum, a free pair of pants or shorts that cost nearly as much helps create a clear value proposition customers can’t afford to ignore. Beyond such transactional rewards, the program aims to differentiate Lululemon from competing retailers through curated events and workout classes that help foster a sense of community among members.

Create a similar mix of benefits to ensure you’re accommodating the modern consumer. Transactional rewards will ensure customers feel satisfied with their ability to save some money while experiential benefits may help you deliver value customers can’t find anywhere else.
A Customer-first Mindset
Catering to Your Customers

While premium loyalty programs can be catered to all industries, it’s not unusual for consumer expectations to differ by market.

When embarking on a premium loyalty program, it’s important to consider the unique needs of customers in your industry.

Consumers say they’re most likely to pay for premium loyalty programs with gas and grocery retailers — likely because these are commodities customers need to purchase at least once a week. Four out of 10 customers would spend money on a loyalty program within the gas industry and 54% of customers say the same for grocery.

Product categories consumers would be willing to join paid loyalty programs for

- 54% Grocery
- 40% Gas
- 38% Entertainment (i.e. movie theaters)
- 34% Clothes and accessories
- 30% Health and beauty
- 24% Travel and hospitality
- 11% Furniture
Transactional benefits for routine purchases — such as 5% cash back for Prime members who use Amazon’s Visa card at Whole Foods — are often too great to pass up. The same applies to experiential rewards like a personal shopping assistant. Knowing that they have to fill up their gas tanks and pick up groceries anyway, consumers are more inclined to earn rewards on these purchases through premium loyalty programs.

But if you’re a retailer in industries outside of gas and grocery, this doesn’t mean premium loyalty isn’t for you. You just need to design the program around your customers’ expectations and desires. Only 20% of respondents say they wouldn’t pay for loyalty in any industry whatsoever, indicating that most customers, regardless of industry, are interested in premium loyalty if done right. Take your unique customer shopping experience into account as you decide what your premium loyalty program should look like.

A high-end furniture store, for example, should think about offering more experiential benefits in addition to basic transactional benefits like free shipping and discounts at checkout. After all, customers aren’t likely to make furniture purchases very often. Services such as free home decorating consultations or free in-home assembly can go a long way toward engaging members and deepening relationships even further.

REI’s Commitment to Its Customers

Few retailers understand and cater more effectively to their customers than REI. The American retail and outdoor recreation services retailer designed its premium loyalty program with one key goal in mind — helping its customers enjoy the great outdoors. The $20 lifetime membership fee earns customers a number of transactional benefits, including 10% back on almost all purchases and access to member-exclusive sales.

But while the value of such savings can’t be discounted, what really helps REI take its customer relationships to the next level are the experiences the retailer offers. From outdoor classes to organized trips around the world, the experiences REI offers speak directly to the interests of its most loyal customers.

Look for similar ways in which you can leverage premium loyalty to stand out from the crowd. Your best customers are always on the hunt for both unbeatable deals and experiences that simply aren’t offered elsewhere. Begin strengthening customer relationships with instant benefits as well as experiences that are geared toward the specific needs and interests of your customers.
as months pass between purchases.

Carefully consider what matters most to your loyalty program members. And remember—premium loyalty isn’t for everyone. Most customers aren’t tied to a specific brand and will likely take their business elsewhere if a better deal is offered. Cater your premium loyalty program to the top 20% of your customer base. Pairing transactional benefits with experiences that are directly relevant to your best customers will increase your chances of attracting new members and cultivating a long-lasting relationship.

Make Sure the Price is Right

Exactly how much are customers willing to pay for premium loyalty? Forty-five percent say less than $50 per year, while 23% say they’d pay between $50 and $100. When setting pricing it’s also important to know your customers. Consider the price of typical products sold along with the frequency at which customers make purchases with your company.
Meeting the Needs of Millennials
Set to surpass Baby Boomers as the country’s largest generation this year, **millennials are an important generation for retailers to win over**. However, millennials are more likely to admit that their loyalty is more difficult to earn than other generations.

“**My loyalty is more difficult for a retailer to maintain than ever before.**”

- Agree: 71%
- Disagree: 29%

“**I would be willing to join a paid loyalty program if my favorite retailers offered them and the benefits were valuable to me**”

- Agree: 80%
- Disagree: 20%

Premium loyalty programs offer an opportunity to win over the increasingly valuable millennial shopper. While millennial loyalty may be harder for retailers to earn and maintain, millennials are **more open to the idea of premium loyalty than their counterparts in other generations**. Eighty percent would be willing to join a paid loyalty program if their favorite retailers offered them and the benefits were valuable.
So exactly how do you develop a program that wins over millennials? Focus on offering frequent perks. All other generations list **cost as the top factor influencing their decision to renew programs**, while millennials list frequency of benefits. And half of millennials expect to receive benefits every few days. Only 31% of other age groups have the same expectation.

Once you do earn the loyalty of millennials, you’ll reap the rewards. Compared to other generations, **millennials use their premium loyalty benefits more often**, they’re more likely to join new premium programs, and they’re more likely to choose a retailer they have a premium program with over others.

### Top factor influencing decision to renew premium programs

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<th>Frequency of benefits</th>
<th>Cost</th>
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<tbody>
<tr>
<td><strong>Millennials</strong></td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td></td>
</tr>
<tr>
<td><strong>Non-millennials</strong></td>
<td></td>
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<tr>
<td>31%</td>
<td>41%</td>
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### Use premium loyalty benefits at least every few days

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<th><strong>Millennials</strong></th>
<th><strong>Non-millennials</strong></th>
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<tr>
<td>24%</td>
<td>41%</td>
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### Would definitely join another premium loyalty program if the benefits were valuable

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<th><strong>Millennials</strong></th>
<th><strong>Non-millennials</strong></th>
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<tr>
<td>16%</td>
<td>29%</td>
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### Would choose retailers with premium programs they belong to over other retailers

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<tr>
<th><strong>Millennials</strong></th>
<th><strong>Non-millennials</strong></th>
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<tbody>
<tr>
<td>90%</td>
<td>86%</td>
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SECTION 6

Loyalty Moments to Remember
Loyalty isn’t something that’s acquired overnight. It’s built through a series of positive experiences, or moments. Customers expect the same great experience when interacting with your company, regardless of whether that moment occurs online, in store, over the phone or elsewhere.

Premium loyalty is picking up steam as a way for retailers to consistently engage with customers across multiple touch points and create those loyalty moments over time. Join the movement toward premium loyalty by being the first in your category to launch a program of your own.

**How to get started**

**Figure out your differentiator.**

In today’s competitive retail environment, loyalty programs that focus exclusively on transactional elements may no longer help you stand out. Rather than only offering discounts or points with each purchase, set the stage for deeper, more meaningful relationships with unique experiences that cater to your customers’ needs and interests.

**Put the needs of your customer first.**

Value is an essential component of any premium loyalty program. Evaluate which benefits and experiences are most relevant to your customers. Continuously optimizing your premium loyalty program to include the greatest value your brand has to offer will help ensure customers not only pay the initial fee, but also renew their membership for years to come.

**Find a partner that specializes in premium loyalty.**

Considering all that goes into creating a top-notch premium loyalty program, it’s important to find a partner that specializes in premium loyalty. From billing to optimization, premium and traditional loyalty programs tend to operate differently. Work with a partner that has the tools and expertise needed to maximize the return on your investment.

To learn more about creating a premium loyalty program, visit [https://www.claruscommerce.com/premium-loyalty-programs/](https://www.claruscommerce.com/premium-loyalty-programs/)
Methodology

Clarus Commerce surveyed 1,000 consumers in March 2019. The respondents were broken down by a number of different factors, including their familiarity with free and paid loyalty programs.

Do you currently belong to any free loyalty programs? (i.e. Starbucks Rewards or a points program from a local business)

- Yes: 74%
- No: 26%

Do you currently belong to any paid loyalty programs? (i.e. Amazon Prime, CVS Carepass)

- Yes: 58%
- No: 42%
About Clarus Commerce

Clarus Commerce is the only company solely focused on building, managing and optimizing customizable premium loyalty programs for retailers. The company provides the full suite of services needed for a successful program, which includes the technology platform, client services, strategy, creative, marketing, analytics, IT and operations. Clarus Commerce was founded in 2001 and is headquartered in Rocky Hill, Connecticut.

For more information, visit www.claruscommerce.com