



ENABLING EFFECTIVE LOYALTY ENGAGEMENT IN RETAIL

DELIVERING VALUE THROUGH
PERSONALIZATION

DECISIONPOINT™
— by **WNS**



Overview

The broad trends seen in retail — customers' preferences for omni-channel engagement, convenient and personalized shopping experiences and the growing value consciousness — are driving retailers towards building resilient customer relationships that go beyond standalone transactions. Rewards programs, initially designed as a way to ensure a shopper's return to a store, can help achieve this objective by offering brand-specific transactional and behavioral data that can be mined for differential insights.

The number of U.S. retail loyalty memberships is estimated to have grown to 3.8 Billion in 2016. However, the actual engagement of shoppers with their reward programs presents a different picture altogether.

Over 42 percent shoppers subscribe to more than two rewards programs, while only 28.7 percent of shoppers actively use more than two programs. Low customer engagement with rewards programs thus deprives retailers of unique insights and loyalty-building opportunities.

WNS DecisionPoint™ surveyed over 1500 U.S. retail shoppers to study the utilization and satisfaction levels of their rewards programs. Segmenting shoppers across demographics into categories based on their behaviors and preferences, this report presents actionable insights on enhancing customer engagement within retail rewards programs. Key findings include:

- Shoppers consider monetary parameters such as ease of earning and redemption, rewards per dollar spent, and rebates/cashback to be table stakes as far as rewards programs are concerned. Our analysis helps retailers identify non-monetary drivers of satisfaction to achieve differential gains in engagement
- The key to personalization in rewards programs is acknowledging differences in shopper's attitudes towards program subscription, rewards earning and redemption, as well as preferred channels of engagement. In-depth behavior comparison across six shopper categories offers retailers tangible starting points for re-designing their rewards programs
- Customers' propensity to shop across retail categories vary. Retailers that leverage this broad trend to enhance the performance of their loyalty programs will be best positioned to engage better with their customers
- Like online shopping, the mobile channel is a fast-growing preference for customers to interact with their rewards programs. Insights into their dissatisfactions with this channel as well as the digital outreach cadence of rewards programs offer corrective approaches

As retailers enter an era of extreme personalization of the shopping experience, the loyalty rewards program deserves to reclaim its place as an important tool and enabler of the same. Advanced technology and analytics can offer retailers unique insights to redefine their branded rewards programs for higher engagement and satisfaction levels.

INTRODUCTION: STATE OF RETAIL AND LOYALTY

Our recent report, **The Writing in the Aisle: What the 2016 US Holiday Season Tells Us About the Future of Retail**, reveals the extent to which customers' spending has shifted to online channels. While e-commerce has had a record year, in-store sales growth was modest amidst significant decline in Year-on-Year (YoY) traffic (Exhibit 1). This decline can be partly explained by the proliferation of online channels

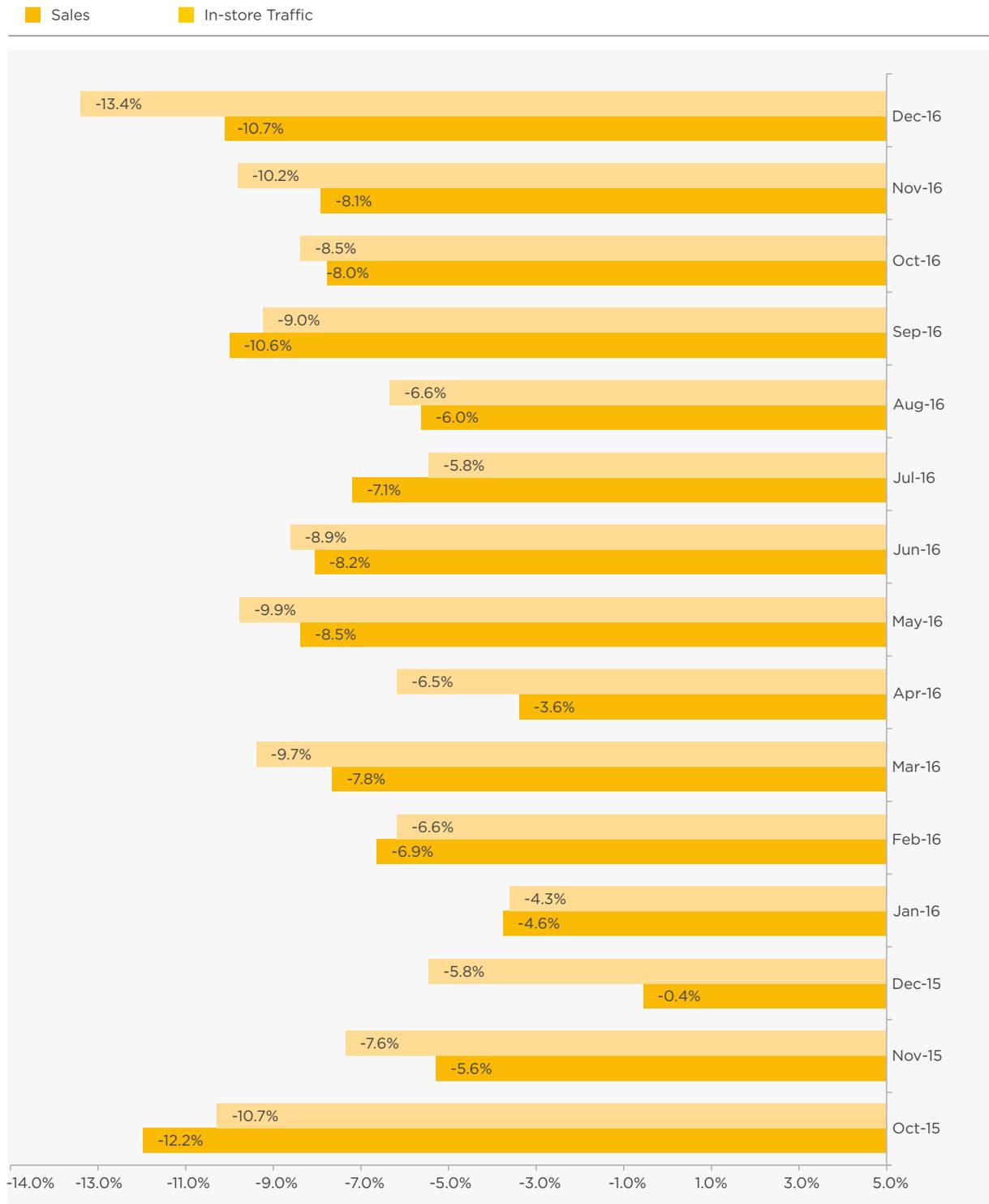
in general and mobile in particular, as customers can shop with a single click and acquire greater visibility into pricing. As a result, retailers have been forced to increase markdowns in the form of discounts and promotions to lure shoppers. This is evidenced by the 45 percent increase in YoY markdowns during the 2016 Thanksgiving Weekend.¹ However, the hyper promotional, hyper competitive environment is

affecting retailers' margins as customers become more value conscious and the bargain hunting behavior seems to only increase further. Retailers would be well-served to develop and nurture a more resilient relationship with the customer which goes beyond this pure deal-seeking shopping dynamic.



Exhibit 1

U.S. YoY In-store Sales and Traffic (October, 2015 to December, 2016)



Source: RetailNext, WNS DecisionPoint™ Analysis

Note: Excludes data from gas, automobile stores, and warehouse clubs.

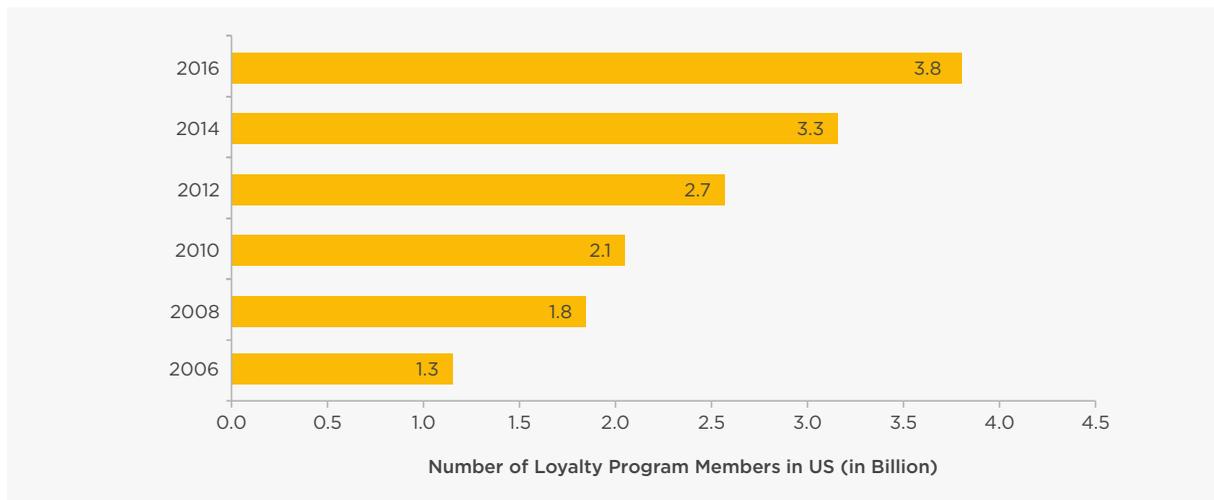
Loyalty programs, by their very nature, are the key to fostering a sustainable relationship. The 2017 Loyalty Census reports that the number of loyalty memberships in the United States (U.S.) was

3.8 Billion in 2016, a 15 percent increase from 3.3 Billion in 2014 (Exhibit 2). However, organizations have not been able to fully accrue the potential benefits from their loyalty programs, as only

46 percent of reported members, on an average, are transacting regularly with their loyalty programs.ⁱⁱ

Exhibit 2

Total U.S. Loyalty Memberships, 2006 to 2016



Source: WNS DecisionPoint™ Analysis, Colloquy Loyalty Census

WNS DecisionPoint™ administered a Loyalty Engagement Survey covering **1509 respondents** to analyze current membership levels in loyalty programs. Based on our survey, we see this lack of engagement playing out in retail as well. Eliminating the outliers, 42.4 percent of respondents subscribe to more than two loyalty programs, while for activity, measured by whether the respondent has utilized the program to earn or redeem points in the last six months, activity drops to 28.7 percent (Exhibit 3). This highlights a key issue with loyalty programs in general and retailer loyalty

programs in particular – most of them are undifferentiated and underutilized.ⁱⁱⁱ This is not surprising, since a typical reward is mainly in the form of either discounts, promotions and points which are redeemed as rebates. Hence, customers tend to interact with the program in a purely transactional manner.

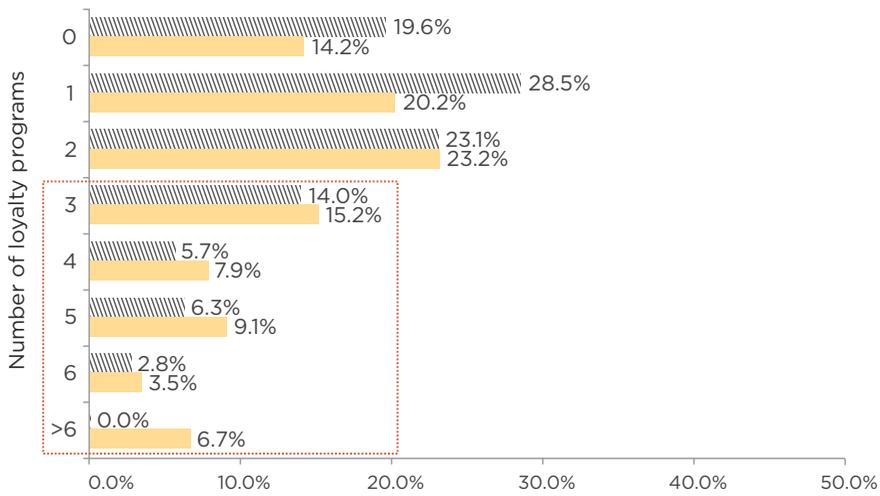
It would be in the interest of retailers to re-invent their loyalty programs so as to promote regular engagement and give customers a reason to come back to the store or the site and shop again. The idea is to create more personalized

programs that amalgamate customers' transactional, behavioral (lifestyle), and product preferences. Integrating these multiple dimensions allows a retailer to make intelligent recommendations that match the preferences of the program members. This can lead to a greater inclination to shop at the retailer as engagement levels improve. It is the program member's perception of a mutually beneficial relationship that drives customer loyalty in a sustainable manner and maximizes the full potential of loyalty programs.

Exhibit 3

Loyalty Programs: Membership and Activity Levels

▨ Activity Levels ■ Membership



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Individuals subscribing to at least one loyalty program.

CURRENT STATE OF RETAIL LOYALTY PROGRAMS

Given the gaps in effective engagement, it is imperative for retailers to gain deeper insights into shoppers' perceptions and preferences with respect to loyalty programs. Loyalty programs typically achieve this through the following major mechanisms: first, they create a formal relationship with the customers, reducing their price sensitivity in the process; and second, an effective channel is

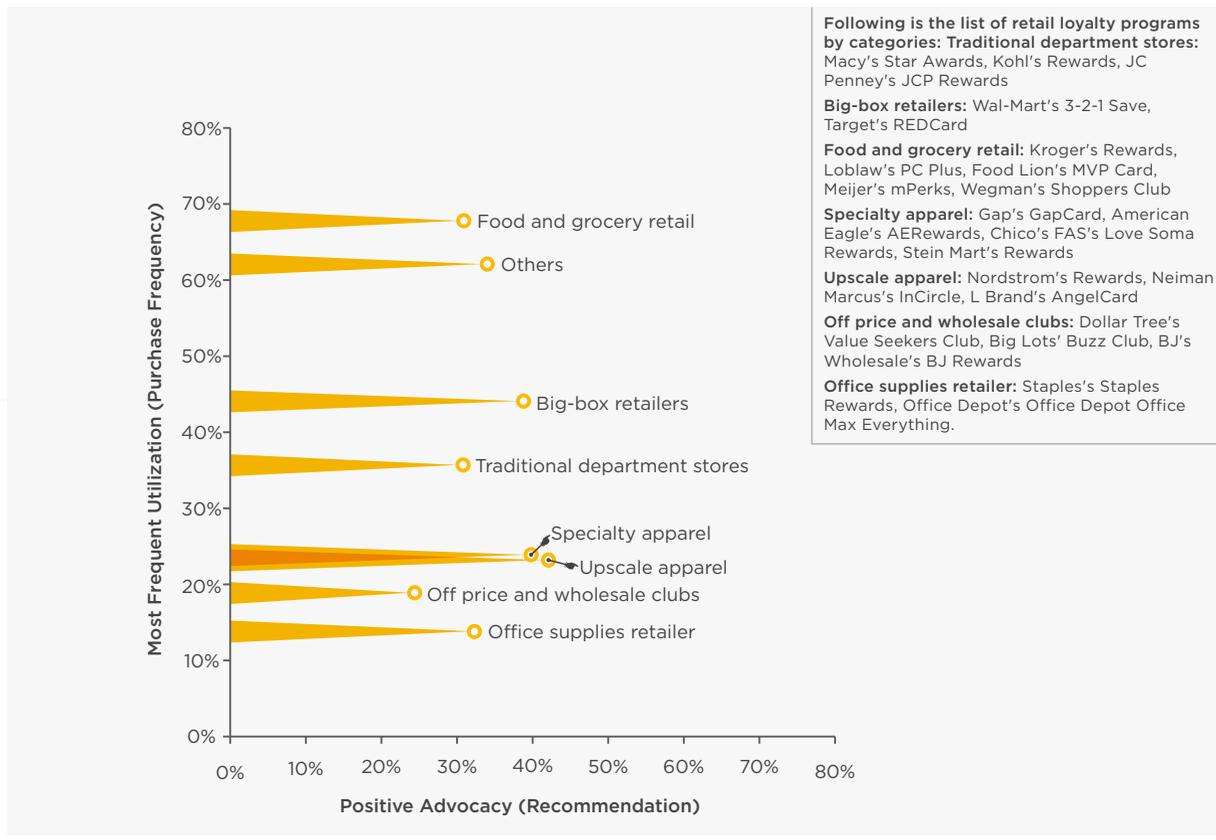
established to leverage a program member's transactional and behavioral data, allowing retailers to tailor offers that are targeted to a specific customer.^{iv}

To measure the efficacy of loyalty programs, WNS DecisionPoint™ has improvised on various loyalty measurement models and inculcated both transactional and attitudinal dimensions to determine

shoppers' perceptions.^v Our analysis identifies the utilization rate¹ as an indicator of transactional loyalty, while the proportion of respondents with positive advocacy² is considered a proxy for attitudinal loyalty. Based on these two dimensions, category-wise performance benchmarks reveal the variability in loyalty perception (Exhibit 4).

Exhibit 4

Performance Plots of Retail Loyalty Programs across Behavioral and Attitudinal Dimensions by Categories



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
 Note: n = 1303, Respondents who have indicated membership to at least one loyalty program.

1. Utilization Rate = Respondents who utilize a given category of loyalty program the most as a proportion of total members.
 2. Positive Advocacy = Respondents who recommend and speak positively about the loyalty program they use most often.

Our analysis shows that utilization rate by retail categories is linked to the nature of shoppers' purchases. For example, food and grocery retail loyalty programs such as Kroger's Rewards, Loblaw's PC Plus, Meijer's mPerks, and Wegman's Shoppers Club have the highest utilization rate at 67.8 percent, as groceries are the most often purchased product category. As per the Food Marketing Institute (FMI), a trade association of food retailers in the U.S., food and grocery supermarkets continue to remain the most preferred format for shopping of grocery items.^{vi} Similarly, loyalty programs of big-box general merchandise retailers such as Walmart's 3-2-1 Save and

Target's REDCard have the second highest utilization rate at 44.1 percent. But our analysis suggests that this has little correlation with the shopper's positive sentiment about the loyalty program.

The number of respondents with positive advocacy for a loyalty program was the highest for upscale apparel stores (42.1 percent) such as Nordstrom and Neiman Marcus, as well as specialty apparel retailers (39.8 percent) such as Gap. This mismatch highlights the need for retailers to take a deeper look into the effectiveness of their loyalty programs, as for any given retail category, the maximum

proportion of positive advocates is less than half.

Improving the efficacy of a program begins with developing an understanding of the program members' perception of various attributes. To enable this, we asked shoppers as part of our Loyalty Engagement Survey to assess the level of importance they assigned to specific attributes of their retail loyalty program and how satisfied they were with the same. Loyalty program members across retail categories also indicated that they see certain attributes having a higher degree of influence on their overall satisfaction vis-à-vis others.



PROGRAM ATTRIBUTES: MAJOR PAIN-POINTS AND DRIVERS OF SATISFACTION

Retailers are mistaken if they think focusing only on financial rewards will lead to greater brand affinity from customers. In Exhibit 5, we have taken the 13 key structural characteristics of loyalty programs and plotted the average importance as well as satisfaction scores for 1303 respondents (who subscribe to at least one retail loyalty program). Monetary attributes such as ease of redemption, ease of earning points,

redemption value per point, rebates/cashbacks, and points earned per dollar spent are assigned the highest importance by shoppers. But as indicated by their high satisfaction scores, further focus on these is unlikely to yield much differentiation to the retailers. To identify the potential differentiators, WNS DecisionPoint™ looked at the combination of Importance and Satisfaction (IS) assigned to these

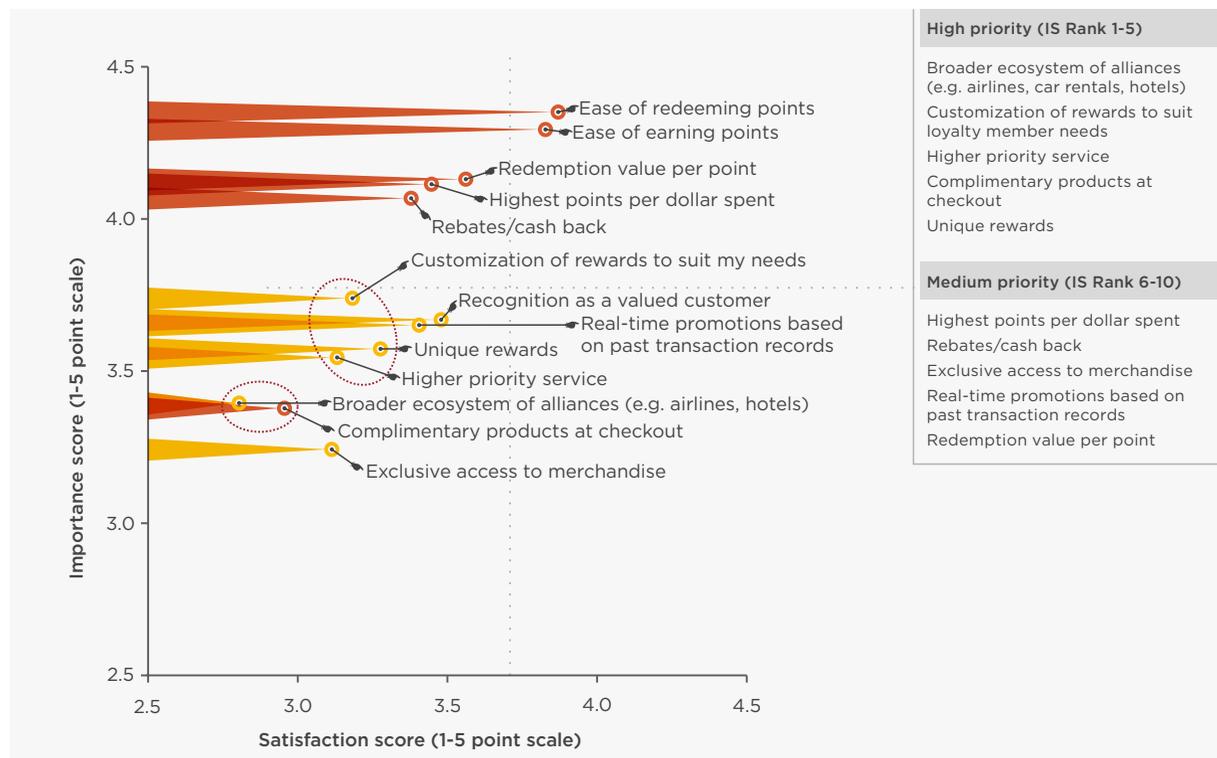
attributes and highlight those with high importance but low satisfaction scores. Our IS analysis³ provides a more comprehensive and granular view of shoppers' perception towards loyalty program components. Based on the ranks derived from these IS scores, it is evident that shoppers aspire for higher levels of engagement with their loyalty programs which go beyond mere transactional interactions.

Exhibit 5

Transactional Components are Now Table Stakes; Shoppers Look at Priority Service, Customization and Alliances as Differentiators

■ Monetary Attributes

■ Non-monetary Attributes



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey

Note: n=1303, Attributes encircled red have the highest IS scores, IS Score= Importance % x (1 - Satisfaction %)

3. Importance % = Percentage of respondents indicating a attribute as "important" or "very important"; Satisfaction % = Percentage of respondents indicating "satisfied" or "very satisfied" with attributes.

Respondents in our survey not only demand that their loyalty program reward them in a unique way but also expect the rewards to be customizable. To be able to deliver these benefits in line with the program member's expectations, leveraging insights from data has to be the central tenet of a retailer's loyalty strategy. And data should encompass not just purchase behavior metrics of the program members but their perception about the retail brand and the extent of advocacy exhibited as well. Based on a deeper understanding of constantly evolving customer expectations, retailers can deliver offers and communications that are targeted as well as relevant. This leads to more effective personalization. As a result, loyalty program members shop more frequently with the retailer and create value through incremental sales – a case in point being Walgreens, which sees 70 percent of total sales contributed by members of its loyalty program, Balance Rewards.^{vii}

Given this need for personalization, retailers who make coalition programs a key tenet of their strategy stand a greater chance of staying relevant as it enables a broader ecosystem of shopper engagement.^{viii} This allows program members to not only earn points faster but also puts them in charge of their own personalization with more options to redeem awards as per their preferences. For example, members of Plenti, a coalition loyalty program operated by American Express (AmEx), can earn/redeem their points across sixteen brands such as Macy's, American Express, Rite Aid, Exxon Mobil, AT&T, Enterprise Rent-A-Car, Chili's and Expedia. Given this broad coverage, the program has become rapidly popular and now ~40 million customers are using it.^{ix}

Despite this evolution in the loyalty paradigm, retailers will have to still deliver on some basic aspects of the shopping experience. Loyalty program members expect higher priority service as compared to other customers. Our analysis sees

this perception manifesting itself across in-store and online channels in a variety of forms.

In the **WNS Retail Holiday Survey**, we highlighted that long waiting queues and slow speed of checkout are the top two inhibitors of in-store shopping. Retailers such as Walgreens have taken their cue from these in-store deterrents and integrated their loyalty program app with Apple and Android Pay. This allows program members to expedite the process of checkout much faster using dedicated Equinox payment terminals.^x To maintain consistency across online channels, many retailers such as Bed Bath & Beyond, Restoration Hardware amongst others are offering free shipping on online orders for test versions of their new loyalty programs. By charging an upfront membership fee, they are simultaneously leveraging the lock-in effect of members and ensuring balance between customer centricity and delivery economics.^{xi}

LOYALTY PROGRAM SATISFACTION: DETERMINANTS AND AREAS OF IMPROVEMENT

Our survey identifies the significant scope retailers have to make improvements in loyalty programs, as only 23.6 percent of members are very satisfied with their most utilized program. In order to do so, retailers need to identify the key determinants of satisfaction. WNS DecisionPoint™ used a linear regression model to identify attributes having the highest level of significance in determining the overall satisfaction of program members:

I. Recognition as a valued customer

II. Ease of earning points

III. Ease of redeeming points

IV. Customization of rewards to suit loyalty card member needs

V. Unique rewards

VI. Broader ecosystem of alliances (e.g. airlines, hotels etc.)

VII. Rebates/cashbacks

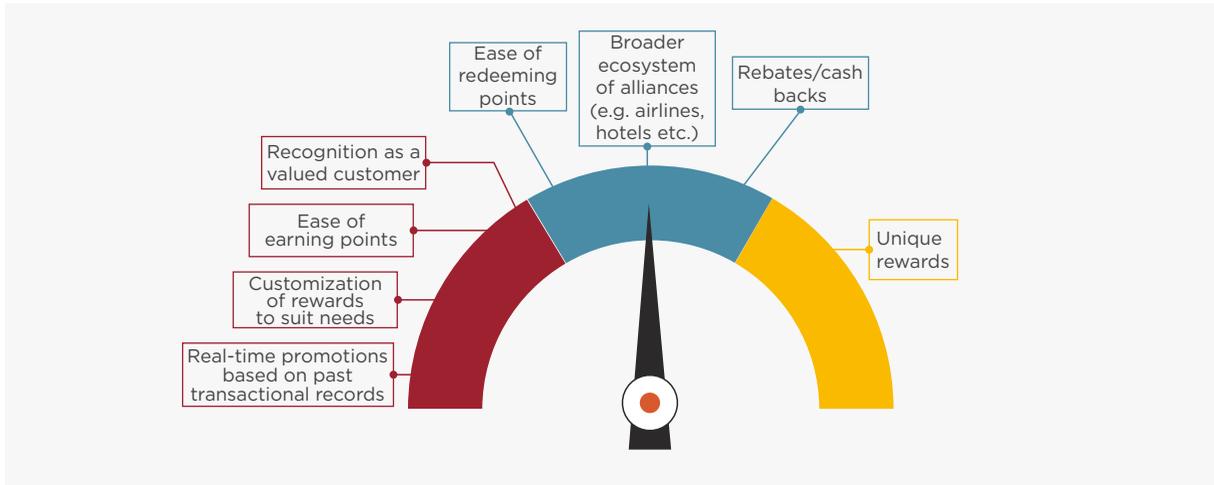
VIII. Real-time promotions based on past transactional records

Our analysis highlights that monetary features of a loyalty program such as ease of earning and redeeming points, rebates and cashbacks should serve as foundational attributes for retailers to improve related Customer Satisfaction (CSAT) scores (Exhibit 6). However, the proliferation of omnichannel ecosystem and shoppers' ability to stay constantly connected through mobile phones means that retailers should address attributes in the personalized (non-monetary) category to ensure their programs are the best in class.^{xii}

Exhibit 6

Significance of Program Attributes on Overall Program Satisfaction

■ High Significance ■ Medium Significance ■ Low Significance



Source: WNS DecisionPoint™ Analysis

Note: Based on most optimized regression model having 94.8 percent accuracy.

In this context, retailers also need to identify the key improvement areas with respect to their loyalty programs. Our analysis points to two broad improvement areas for

retailers: the utilitarian and the structural. Low relevance of promotions and fewer options to accrue/redeem points pertain to the utilitarian aspect, while the

need to uncomplicate the structure of their loyalty programs and extend the expiry duration of loyalty points for consumers relate to the structural aspect.



ONE PROGRAM DOES NOT FIT ALL: SEGMENTS AND CHARACTERISTICS

WNS DecisionPoint™ compared retail loyalty programs across different categories and found they have the same structure – a frequency reward component, i.e. points earned per dollar spent by the program member, and a tier component, where users are segmented into tiers based on their shopping frequency. The rewards allocated to the program subscriber as well as the privileges vary for different tiers (see Appendix 1 to 7 for details).

Sine the programs have an undifferentiated structure in terms of demographics and preference, the rewards pushed to the program member in a given tier are the

same. Thus, a 24-year-old Millennial working in Silicon Valley and a 73-year-old Baby Boomer who has retired will receive identical rewards. The current technology ecosystem, coupled with analytical advancements, allows for faster real-time data processing as well as outcomes with a significantly higher level of accuracy and relevance. This gives retailers the scope to move beyond plain vanilla rewards for loyalty programs and build a differentiated perception, which in turn would lift engagement levels.

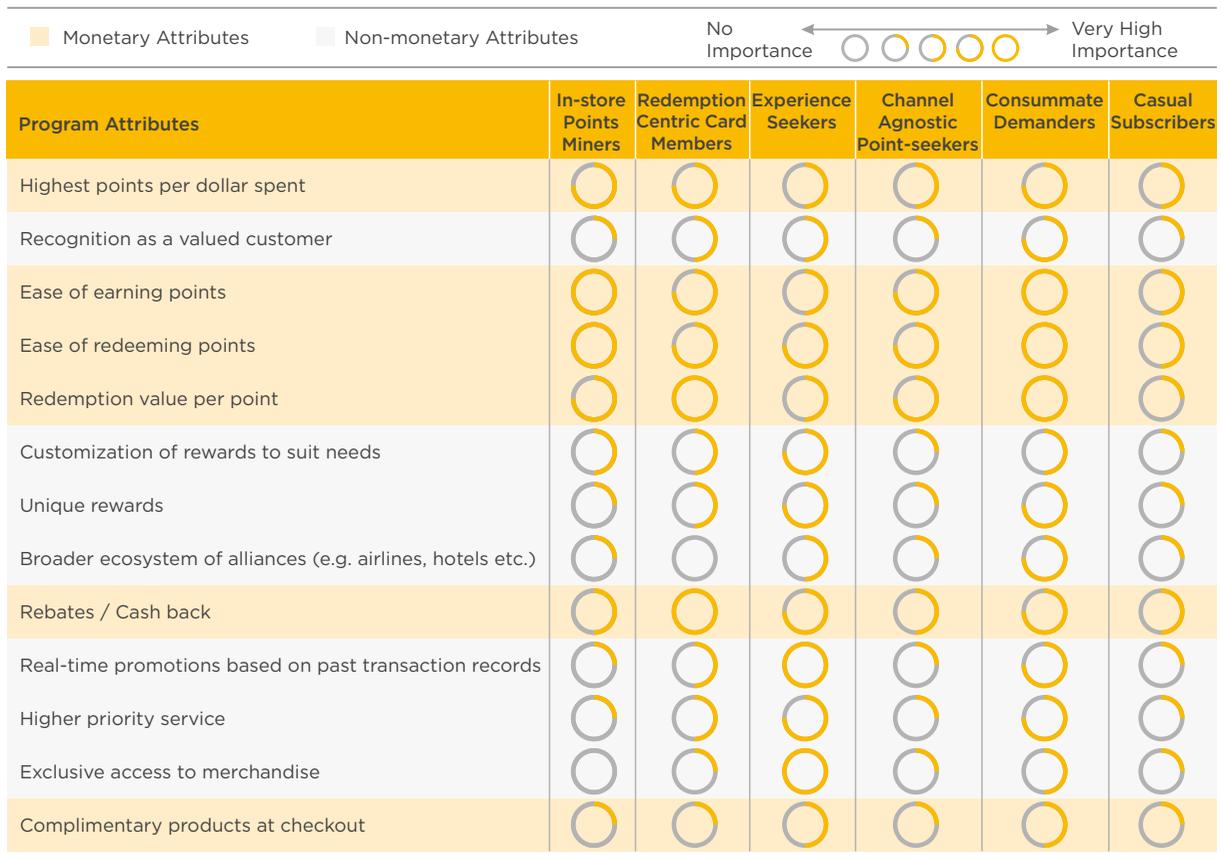
Our analysis looks at the aforementioned structural attributes of loyalty programs and

classifies the respondent set in our survey into distinct segments. It needs to be noted that the degree of importance assigned to these attributes, both monetary and non-monetary, shows significant variability across segments, as seen in Exhibit 7. In addition to these behavioral traits, we have also analyzed the segments based on their generational mix, channel preferences, program membership and activity levels. Specific archetypes were then assigned to these segments based on their distinguishing features.



Exhibit 7

Segments of Program Members Assign Differential Importance to Attributes



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Individuals subscribing to at least one loyalty program.

In-store point-miners prefer to primarily shop inside stores, allocating 69 percent of their planned shopping budget (significantly higher compared to other segments). This inclination to shop in-store can be attributed to the presence of Seniors and Baby Boomers, who make up 60 percent of this archetype. The older the customer, the more likely is he/she to be a mono-channel in-store shopper. As we can see in Exhibit 7, there is near-exclusive importance attached to attributes concerning earning and redemption of points, i.e. highest points per dollar spent, ease of earning points, ease of redeeming points and redemption

value per point. They deem non-monetary attributes to be almost irrelevant, as indicated by the importance assigned. This value maximization from a points perspective is also reflected in the program subscription and engagement levels of this cohort.

While program membership per person is the highest across all segments (4.1), in-store point-miners tend to transact selectively with these programs, as indicated by 2.2 programs actively used per person. This cohort has indicated that they monitor their points balance most frequently amongst the different attributes of the

loyalty program (Exhibit 8) and feel that their loyalty programs can pique their interest if the retailer increases the expiry period of the points and provides them with more options to earn and redeem them.

A redemption centric card member is similar to the in-store point-miner in that both emphasize exclusively on the monetary aspect of their loyalty programs with an additional specific focus on redemption attributes, i.e. redemption value per point and rebates/cashbacks (Exhibit 7). This cohort consists mainly of Millennials and Gen Xers (70

percent). As seen in Exhibit 8, their planned budget allocation across different shopping channels is in line with average expectations. Given the emphasis on redemption, this cohort looks out for upcoming promotions as well as offers to maximize the value of the points that they are looking to redeem. The disparity between count of programs subscribed and actively used per person is much lower – each respondent enrolls in 3.9 programs on an average and transacts actively with 2.7 programs.

Our analysis reveals that this cohort feels their loyalty programs can improve in multiple areas – simpler program structure, more options to accrue and redeem points, and promotions more relevant to them – indicating a higher level of overall dissatisfaction with the program (the second lowest proportion of respondents satisfied⁴ with their program, 66.7 percent).

Experience seekers are a group of digitally engaged loyalty program members consisting primarily of a younger generational mix. Millennials and Gen Xers make up approximately 80 percent of this cohort. As the name suggests, this segment values a differentiating experience with a very high level of importance assigned to attributes related to personalization (Exhibit 7). More than two-thirds of this segment reported using the retailer's mobile app frequently to measure the performance of their loyalty programs.

Mobile/smart phones and tablets are regular purchase channels, as indicated by 19 percent spend allocation. This indicates a much higher level of mobile adoption and

engagement compared to other archetypes. Given their continuous engagement across digital channels, this segment has very high expectations from their retail loyalty programs. The expectation matrix in Exhibit 8 indicates that they feel their retail loyalty program can provide them a better experience in all six areas despite the high levels of overall satisfaction. Unsurprisingly, more than half the respondents (51 percent) in this segment indicated that they track upcoming promotions and offers most regularly and demand personalization across multiple touchpoints. Therefore, while members of this segment subscribe to 3.9 programs on an average, they are actively using only 2.3 programs which meet their expectations from an experience perspective.

Channel agnostic point-seekers, as seen in Exhibit 7, have a behavioral emphasis on the monetary aspects of loyalty programs, i.e. ease of earning points, ease of redeeming points, and redemption value per point. While this behavioral pattern may seem similar to that of in-store point-miners, the spend allocation breakdown highlights their channel agnostic nature (Exhibit 8). Additionally, the generational mix is concentrated towards Baby Boomers (37 percent) and Gen Xers (33 percent). Given their channel agnostic nature, they are not too concerned about the expiry period of loyalty reward points; however, they expect retailers to provide them with more options to accrue or redeem points. Our analysis of satisfaction levels for this segment reveals that even though the proportion of satisfied respondents is the second highest

at 73.6 percent, the proportion of very satisfied respondents is the second lowest at 21.2 percent.

Consummate demanders consist primarily of older Millennials and Gen X (69 percent). As we can see in Exhibit 7, this segment is the most demanding and assigns a high level of importance to almost all loyalty program attributes across monetary and non-monetary categories. Analysis of budget allocation across channels depicts a significantly higher focus on mobile (16 percent) as compared to other cohorts. However, the distribution of planned spending is even across online desktop and in-store channels, indicating a comprehensive multichannel approach to shopping. This multichannel focus results in constant engagement with the retailer's loyalty program and shapes expectations of members. They feel promotions can be more relevant with greater options to accrue/redeem points.

But despite the high levels of expectations across all six attributes as visible in Exhibit 8, 77.2 percent of respondents in this segment are satisfied with their retail loyalty programs'



4. Percent of satisfied respondents by segment = (Very satisfied respondents + Satisfied respondents)/Total respondents in segment

performance. This is linked to their behavioral trait of only choosing the best programs and fully utilizing the ones they subscribe to. Average program membership per respondent is 3.8 while they transact regularly with 3.1 of them.

Retailers that are keen to increase customer retention and lifetime loyalty must strive to provide their program members a seamless and engaging experience across channels as this segment is economically affluent, with more

than half the respondents having an annual income in excess of USD 75,000. This affluence is visible in their status-conscious behavior, as a significantly higher 12 percent of respondents indicate that they frequently check their specific program tier.

Casual subscribers exhibit a high level of indifference to almost all attributes related to loyalty programs. Consisting primarily of older Baby Boomers and Seniors (69 percent), they display very low

levels of program engagement and transact with only 1.9 loyalty programs on average, while subscribing to 2.9 loyalty programs. This low level of engagement is an indicator of their low program expectations across all attributes. Despite this, the proportion of satisfied respondents is the lowest across all the segments indicating a level of discontentment with their retail loyalty programs.



Exhibit 8

Behavioral Dashboard by Program Archetypes

■ High ■ Neutral ■ Low

| Company Name | In-store Points Miners | Redemption Centric Card Members | Experience Seekers | Channel Agnostic Points Seekers | Consummate Demanders | Casual Subscribers |
|---|--|---------------------------------|--------------------|---------------------------------|----------------------|--------------------|
| Channels | Planned budget allocation by various channels* | | | | | |
| Online (Desktop/Laptop) | 22% | 26% | 24% | 25% | 24% | 24% |
| Online (Mobile/Tablet) | 9% | 14% | 19% | 10% | 16% | 11% |
| In-store | 69% | 60% | 57% | 65% | 60% | 64% |
| Others | 1% | 0% | 0% | 0% | 0% | 0% |
| Program membership and activity per respondent | | | | | | |
| Avg. program membership | 4.1 | 3.9 | 3.9 | 3.6 | 3.8 | 2.9 |
| Avg. active programs | 2.2 | 2.7 | 2.3 | 2.4 | 3.1 | 1.9 |
| Tracking attributes | Proportion of respondents, who track a particular program attribute | | | | | |
| Points balance | 43% | 37% | 40% | 42% | 38% | 48% |
| Upcoming promotions & offers | 38% | 47% | 51% | 43% | 47% | 45% |
| Status | 5% | 9% | 6% | 8% | 12% | 5% |
| Others (discounts, cashbacks etc.) | 14% | 7% | 3% | 7% | 2% | 2% |
| Improvement area | Expectation matrix** | | | | | |
| Simpler program structure | ■ | ■ | ■ | ■ | ■ | ■ |
| Extended points expiry period | ■ | ■ | ■ | ■ | ■ | ■ |
| Guidelines to achieve next tier | ■ | ■ | ■ | ■ | ■ | ■ |
| Short goals within tiers | ■ | ■ | ■ | ■ | ■ | ■ |
| More options to accrue / redeem | ■ | ■ | ■ | ■ | ■ | ■ |
| Relevant, personalized promotions | ■ | ■ | ■ | ■ | ■ | ■ |
| Respondent CSAT metrics | | | | | | |
| Average CSAT score | 3.8 | 3.9 | 4.0 | 3.8 | 3.8 | 3.2 |
| Satisfied respondents (A) | 46.2% | 42.2% | 33.8% | 52.4% | 48.7% | 51.6% |
| Very satisfied respondents (B) | 21.0% | 24.5% | 37.3% | 21.2% | 28.5% | 12.7% |
| Total satisfied respondents (A+B) | 67.2% | 66.7% | 71.1% | 73.6% | 77.2% | 64.3% |

Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey

Note: n=1303, Individuals subscribing to at least one loyalty program.

* Percentages in red background are significantly higher than average expected percentages for the given channel.

** Average expectation for the given improvement area is graded on a 5-point scale.

POINTS ACCRUAL STRATEGY BY SEGMENTS

In view of the different segments of loyalty program subscribers, retailers would do well to appreciate that these groups also vary in their approach to points accrual, redemptions and their personalization preferences. WNS DecisionPoint™ analyzed respondents' perceptions with respect to points accrual, initial trigger to join a retailer's loyalty program, mode of achieving the highest status in a program, and availability of various options to earn points across channels.

Accrual Patterns follow a Broad Trend, with Minor Variations

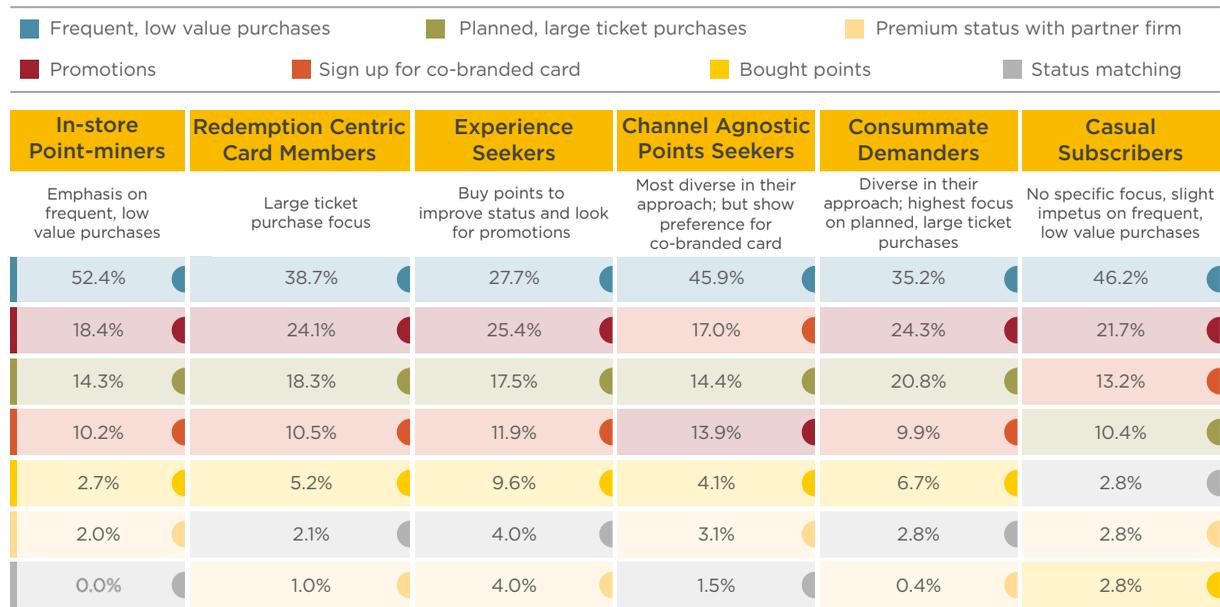
Exhibit 9 outlines the preferential rankings of various approaches to

points accrual by individual archetypes. This provides retailers key insights on points accumulation. While minor variations do exist between groups, frequent, low value purchases is the most common approach to accrue points across segments. Additionally, the next three most preferred approaches to points accrual, i.e. promotions, using a co-branded credit card, and planned, large ticket purchases are common across all the archetypes of program subscribers, but the order varies by segments. Hence, retailers who focus on improving program engagement experience in these four key areas can address significant concerns their loyalty

program subscribers have with respect to points accumulation. Our findings highlight the emergence of co-branded credit cards in the loyalty ecosystem given the win-win scenario for all the stakeholders.^{xiii} Shoppers' preference is tied to the fact that the use of a co-branded credit card allows them to earn discounts and cashbacks on purchases and simultaneously accumulate reward points even for purchases made outside the retailer's ecosystem. To earn optimal rewards, shoppers often modify their shopping cart and increase their net purchase leading to incremental revenue for the retailers.

Exhibit 9

Accrual Patterns by Segments



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey

Note: n=1303, Percentages in brackets are proportion of respondents by segments.

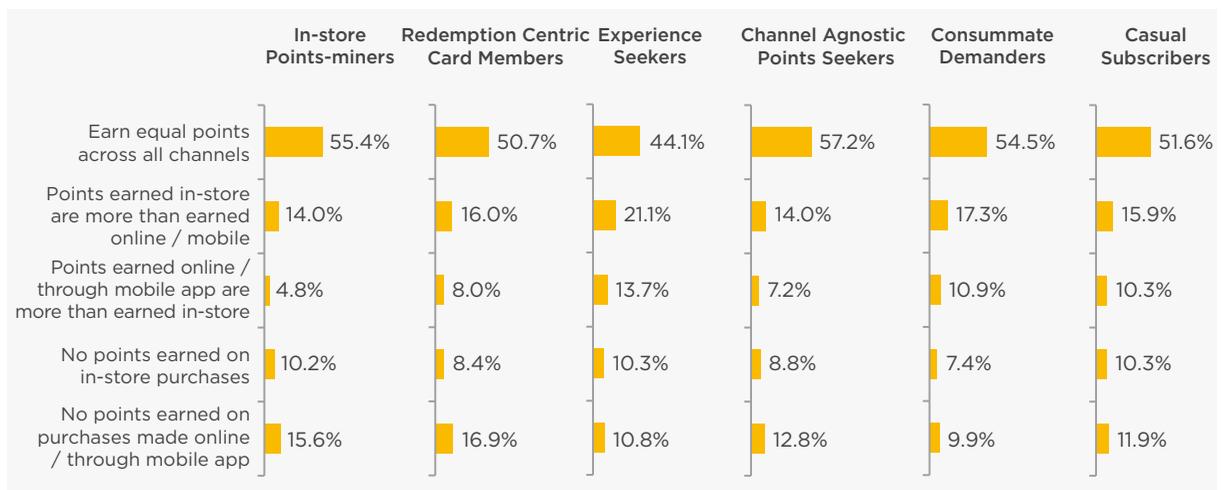
Equal opportunities exist to earn points across channels but shoppers demand more. A majority of respondents report that their retail loyalty program allows them to earn equal points across channels for a given transaction. However, the actual proportion of respondents agreeing with the above varies between 44.1 and 57.2

percent (Exhibit 10). A significant percentage of respondents in our survey feel that on making a purchase via online channels, they earn no or less points vis-à-vis in-store channels. Synchronization of incentives and rewards across channels encourage program members to engage with the retailer across a variety of

touchpoints. On the contrary, if program members perceive that different channels deliver dissimilar experiences, they will decide to engage only partially with the retailer and display transactional loyalty to maximize their points balance.

Exhibit 10

Respondent Perception of Points Accrual across Channels



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Individuals subscribing to at least one loyalty program.

POINTS REDEMPTION STRATEGY BY SEGMENTS

Contrary to points accrual, loyalty program members show major differences in their behavioral traits with respect to redemption of points and quantum of rewards for a particular transaction.

Promotional offers and achieving a target points balance are the most common redemption triggers.

Promotional offers are ubiquitous as one of the top two triggers to redeem points across all program member archetypes. However, the overall redemption behavior for

each archetype is unique, as highlighted in Exhibit 11.

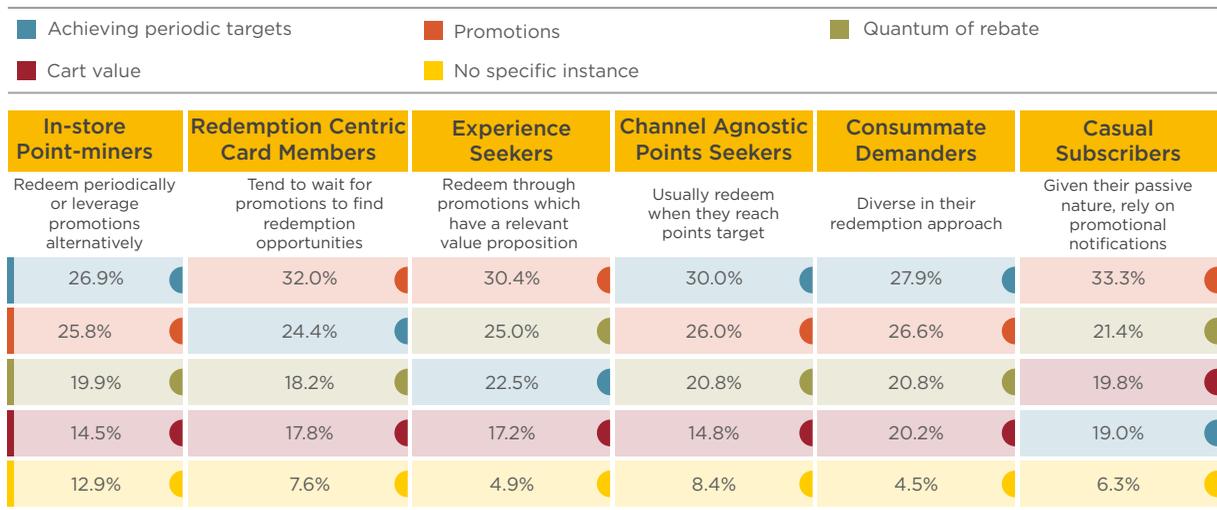
- a. In-store point-miners prefer to make planned redemptions on achieving a target number of points in a given period (26.9 percent) or through promotional events (25.8 percent).
- b. Both redemption centric card members and experience seekers prefer promotions but with differing intent. For a redemption centric card

member, promotional events act as a key trigger to redeem points, but only after achieving a minimum threshold of reward points. An experience seeker prefers promotions given the relevant nature of the trigger.

- c. Channel agnostic point-seekers have a significantly higher focus on redeeming after achieving a minimum threshold of points, while consummate demanders are most diverse in their redemption approach.

Exhibit 11

Redemption Patterns by Segments



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Percentages in brackets are proportion of respondents by segments.

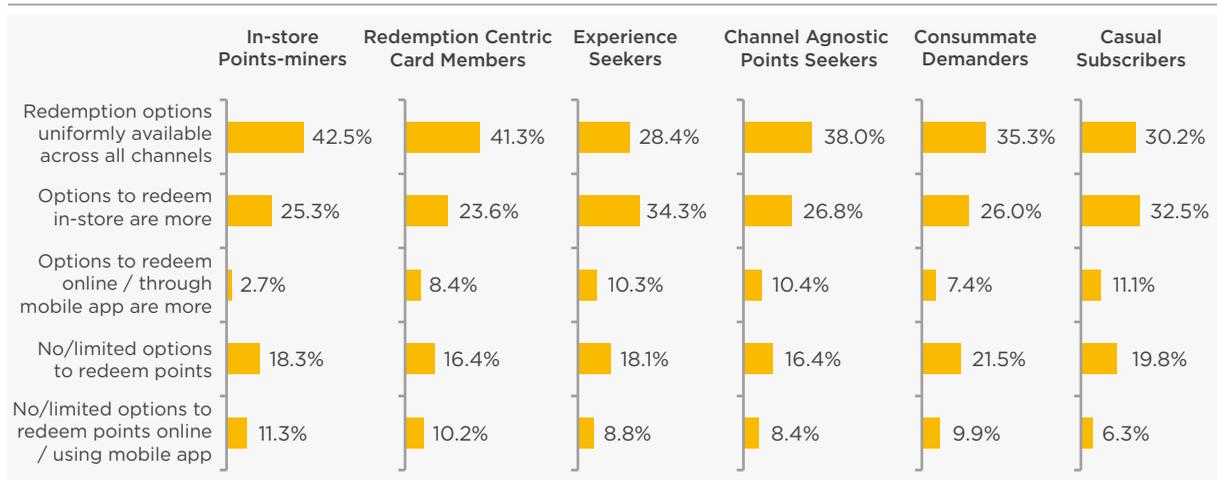
Higher proportion of program members feel redemption options are not equally available across channels. Less than half the program members in our respondent set believe that their program provides equal opportunities to redeem across channels, varying between 28.4 percent (experience seekers) and 42.5 percent (in-store

point-miners). In fact, a majority of respondents in two program member archetypes, i.e. experience seekers and casual subscribers indicated that they have more options to redeem in-store than online. This difference in program members' perceptions regarding points accrual and redemption establishes a key conclusion - while program members have a broadly

similar approach to accumulation of points, it is the redemption where significant variability exists in terms of preference. Retailers that are able to meet these differentiated expectations stand a greater chance to engage their program members more effectively and build lasting relationships that add more value for both stakeholders.^{xiv}

Exhibit 12

Respondent Perception of Points Redemption across Channels



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Individuals subscribing to at least one loyalty program.

ENGAGEMENT ENHANCEMENT ROADMAP FOR RETAILERS

Retailers with mature loyalty programs and a sophisticated data analytics ecosystem can take a 360-degree approach to enhance personalization and consequently engagement levels. However, as established earlier, the main challenge lies around redemption of rewards given the variability in program members' choices. WNS DecisionPoint™ sees this redemption challenge as related to two specific issues. First, most customers in general and loyalty program members in particular shop across a variety of retail categories. Our analysis shows shoppers exhibiting specific buying patterns across retail categories. A

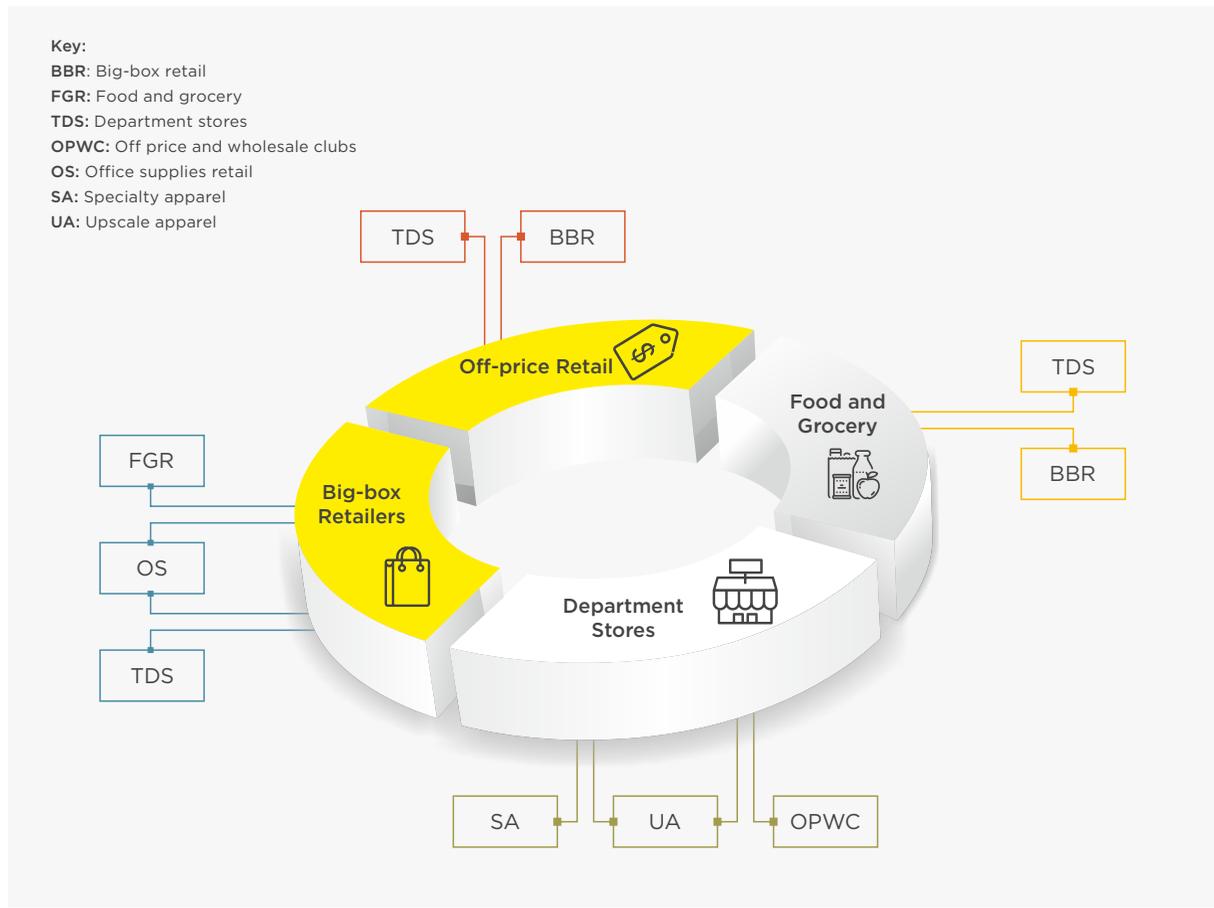
majority of shoppers indicate that one of the four anchor categories, i.e. big-box retail, department stores, off-price and wholesale clubs or food and grocery retail is their first preference while making a purchase. For each of these anchor categories, shoppers indicated their second preference, i.e. the category of retailer they will visit next. Exhibit 13 documents these category propensity patterns based on the preferences of our survey respondents. For example, customers who shop at a big-box retailer have a significantly high propensity to shop at food and grocery retailers as well and vice-versa. We see this scenario as a

function of overlap in assortments between these two categories as big-box retailers have widened their assortment to include groceries and perishables in addition to consumer-packaged goods.^{xv} This overlap in assortment has become so conspicuous that big-box retailers, such as Walmart, consider grocery to be a key driver of in-store traffic and traditional grocery retailers, such as Whole Foods, as direct competition. Similarly, shoppers who frequently visit a traditional department store often look out for complementary assortments in off-price and apparel retail, as they seek differential price points.



Exhibit 13

Category Propensity Patterns Provide Retailers with an Effective Engagement Template



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey

Note: n=1303, Individuals subscribing to at least one loyalty program. Inner core represents anchor categories, outer core consists of categories for which shoppers have the highest probability of making a purchase after each of the four anchor categories.

Second, seldom does a loyalty program member look at a particular type of reward in isolation (Exhibit 14). Therefore, while a majority of program members assume discounts, rebates and cashbacks to be table stakes, creating meaningful distinction requires offering more than generic deals. In fact, personalization is an omnipresent theme across various redemption options but there is noticeable difference in how program

members want this experience to be delivered to them.

The program members' preferences of various redemption options can be tiered into three levels. These tiers are based on the proportion of respondents who indicated a particular redemption as the most preferred. The top tier consists of monetary rewards such as discounts on purchases (82.6 percent), rebates or cashbacks (72.1 percent), and personalized

rewards, excluding personalized products (71.3 percent). Only 50.4 percent and 47.9 percent of program members prefer free shipping and free/complimentary products respectively.

As stated before, program members look at a particular redemption option in conjunction with various other redemption as well as personalization options. Based on psychographic data of loyalty program members, we have

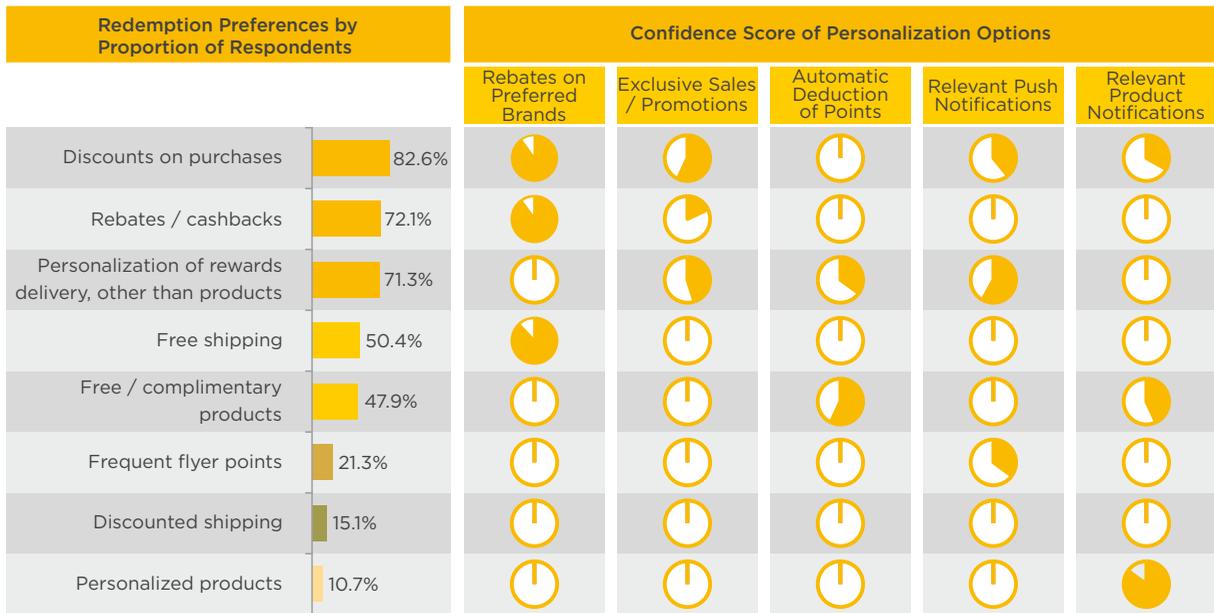
identified propensity to prefer subsequent personalization options for a given redemption preference. The relevance of personalization is highlighted by the fact that for three different types of redemption options, i.e. cashbacks, complimentary products and frequent flyer points, propensity for personalization is 71 percent. Therefore, if program members prefer either one of these redemption options, they have a high likelihood of expecting some level of personalization based on their past transactions. The confidence score of personalization

options is conditional probability of a particular personalization option to be preferred given the program member has already decided the redemption option(s). As seen in Exhibit 14, the confidence scores of personalization options are tied to individual redemption preferences. While our analysis is specific to respondents in our Loyalty Engagement Survey, it provides retailers with a basic template to analyze the redemption preferences of their loyalty program members and how they can personalize the experience. For example, if a retail loyalty

program member prefers rebates or cashbacks, there is significant propensity to expect free shipping as well. Retailers can cater to this expectation by providing program members with free shipping in case they are willing to make a threshold level of increment in their cart value. Additionally, such program members (who chose rebates or cashbacks) will also desire that option to be tailored according to their preferred categories/product baskets and the rebates be tied to exclusive events with members-only access.

Exhibit 14

Redemption Preferences and Confidence Scores for Personalization



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Individuals subscribing to at least one loyalty program.

The category propensities identified earlier have two parallel implications for a retailer, both related to the uptick seen in coalition programs. For retailers, it makes sense to adopt a strategy based on behavioral targeting. It enables them to identify and

predict other retail categories their program members shop more frequently at. Hence, they can build an effective coalition loyalty program by establishing tie-ups with retailers that belong to those high propensity categories. At a more strategic level, it provides

retailers with key insights with respect to program design. For instance, if they have a narrow assortment of categories, they would do well to focus on alliances and partnerships to leverage correlations in shopping patterns.

IMPROVING DIGITAL ENGAGEMENT: KEY ISSUES AND COMMUNICATION CADENCE

The 2016 U.S. Holiday season saw e-commerce continue to make strides as it grew 17 percent YoY, versus 2.2 percent for in-store sales. In particular, m-commerce exhibited exponential growth, 44 percent YoY. This is primarily being driven by the speed and convenience of mobile shopping, as screen specifications improve and smartphone ownership grows. As per eMarketer, 78.7 percent of mobile phone users in North America owned a smartphone in 2016, forecasted to go up to 82.7 percent in 2020.^{xvi} This has major implications for retailers. Three quarters of the loyalty program members in a recent Colloquy study prefer their smartphone as a point of access.^{xvii} Therefore, program members expect retailers to provide them with a mobile interface so that they can access details of their loyalty programs.

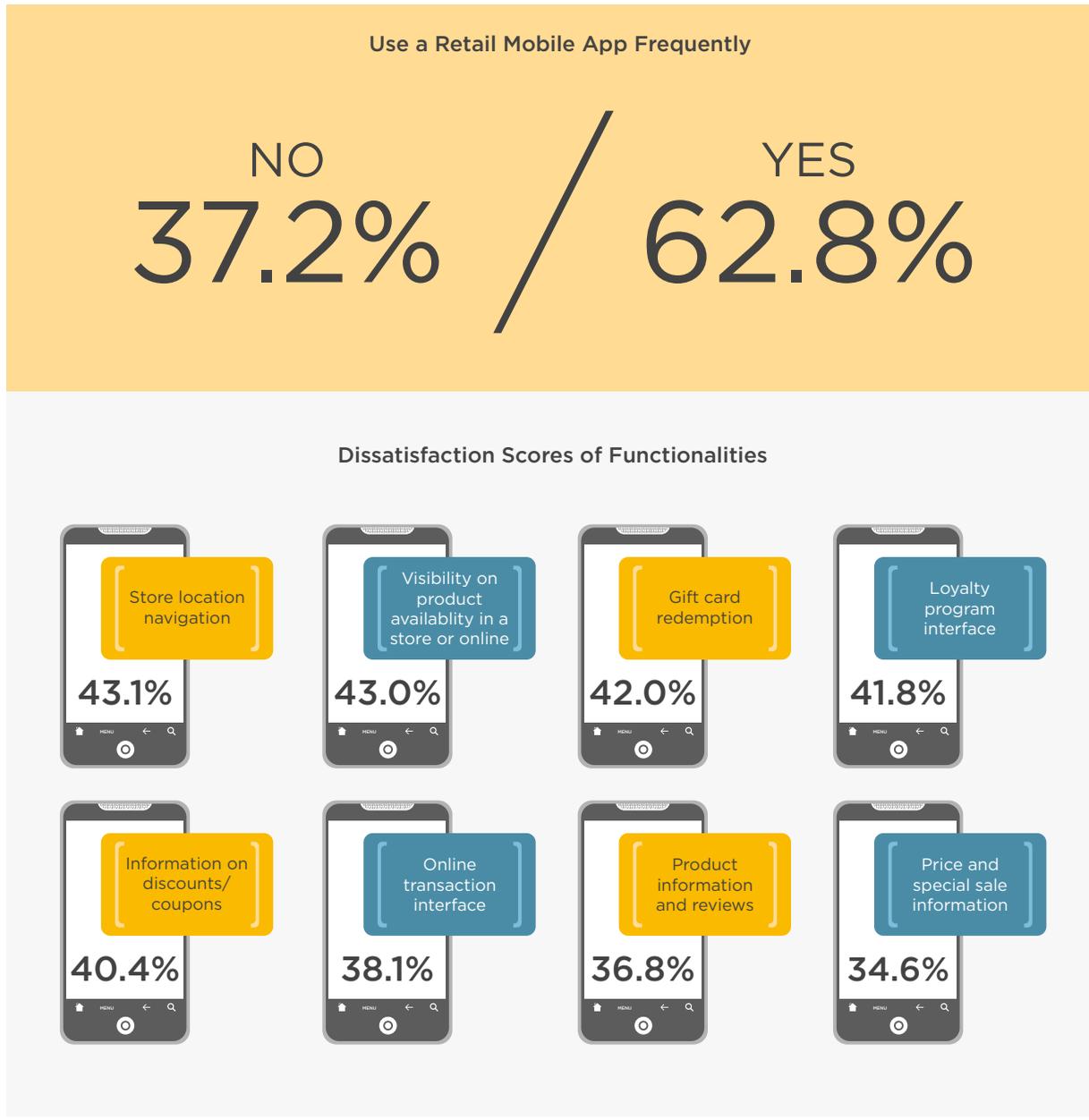
However, 41.8 percent of loyalty program members who use a retail mobile app frequently expressed their dissatisfaction with the loyalty program interface (Exhibit 15). The smartphone ecosystem, coupled with the data from loyalty program subscribers, provides retailers with a significant scope to both personalize offerings as well as resolve the issues outlined in Exhibit 15. However, low comfort levels of shoppers to share personal information presents a key roadblock for retailers to harness this data.^{xviii} We observed that concerns of shoppers are linked to six specific factors. We recommend specific action steps in Exhibit 16 that lead to greater predisposition amongst customers to share data, irrespective of whether they subscribe to a loyalty program or otherwise. Most significantly, customers expect

retailers to communicate the value they will gain as well as the specific actions undertaken based on the data they share. While privacy incidents have been well documented, our analysis identifies that customers' concerns regarding the same are centered around specific issues – sharing data with third parties, assurance of having complete control over the information they want to share, and steps taken to safeguard information. Given the proliferation of data breaches, concerns over information security remain for customers.^{xix} Retailers need to enhance their data security infrastructure and provide customers the option to control the level of information shared. This implies a need for retailers to tweak their mobile apps so that customers can customize privacy settings.



Exhibit 15

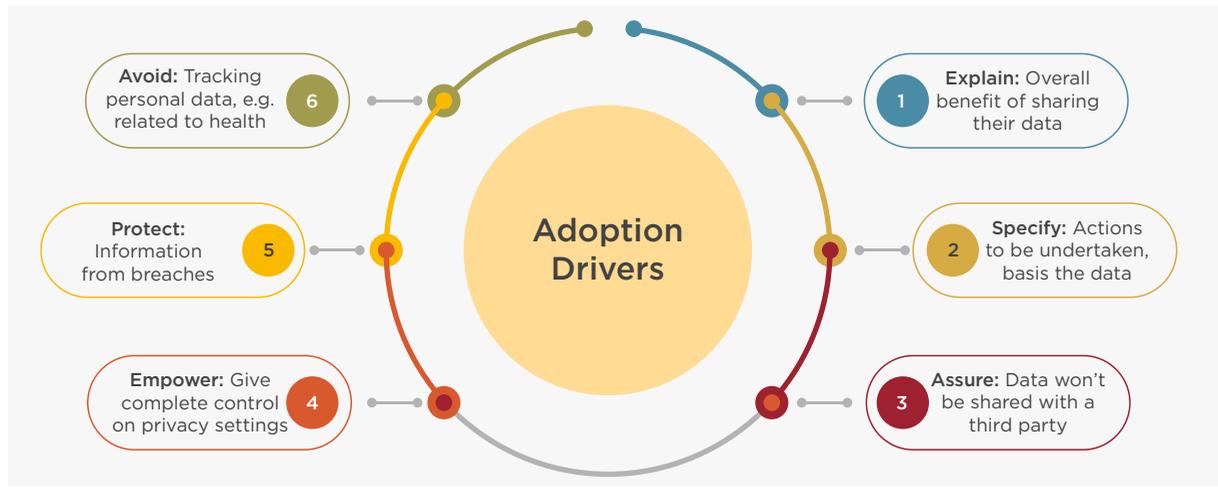
Prior Usage of Retail Mobile App and Dissatisfaction Scores of Functionalities



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Individuals subscribing to at least one loyalty program.

Exhibit 16

Action Steps to Gain Shopper Confidence and Overcome Reluctance to Share Data



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1509, Total respondent set in the survey.

While the steps outlined in our report help retailers improve their existing and planned loyalty programs, maximizing the reach of the same necessitates a well-synchronized promotion strategy. Retailers employ various channels such as e-mails, direct mailers, social media amongst others to promote their loyalty programs to members and non-members alike, but we do not see them recognizing the differential nature of these channels from content as well as frequency perspective. This can become a

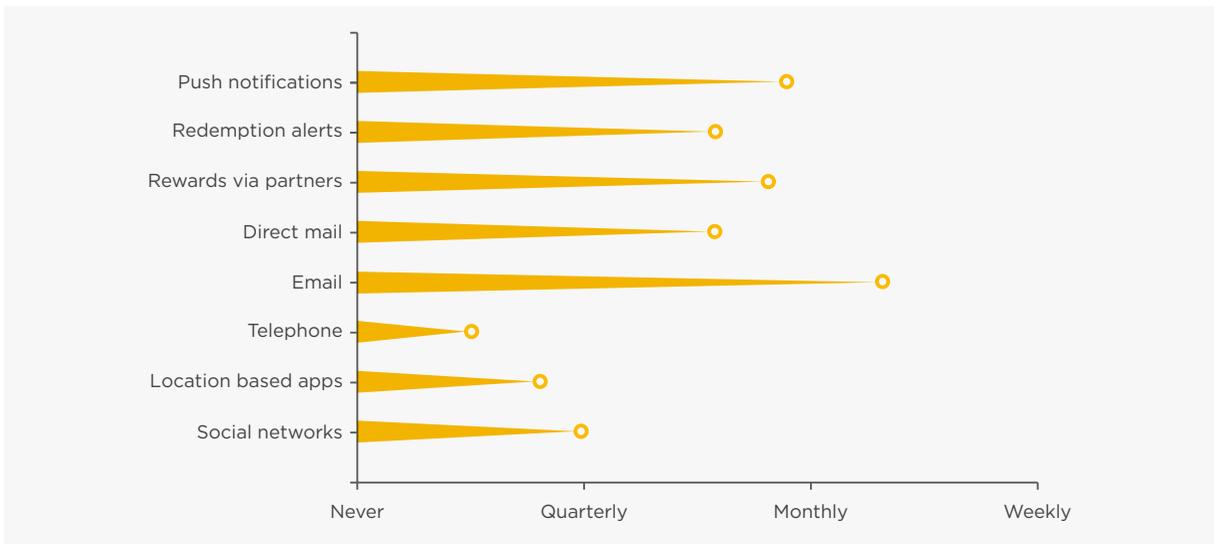
major operational pain-point for retailers given a rapidly evolving omnichannel retail ecosystem. For example, loyalty program content for e-mail and mobile channels will vary due to the difference in dimensions between the two device categories. While e-mails will have more detailed content with a link to access the program online, content for mobile channels needs to be more concise, requiring retailers to ensure the website is mobile optimized with a link for downloading the app

given the constraints related to data bandwidth.

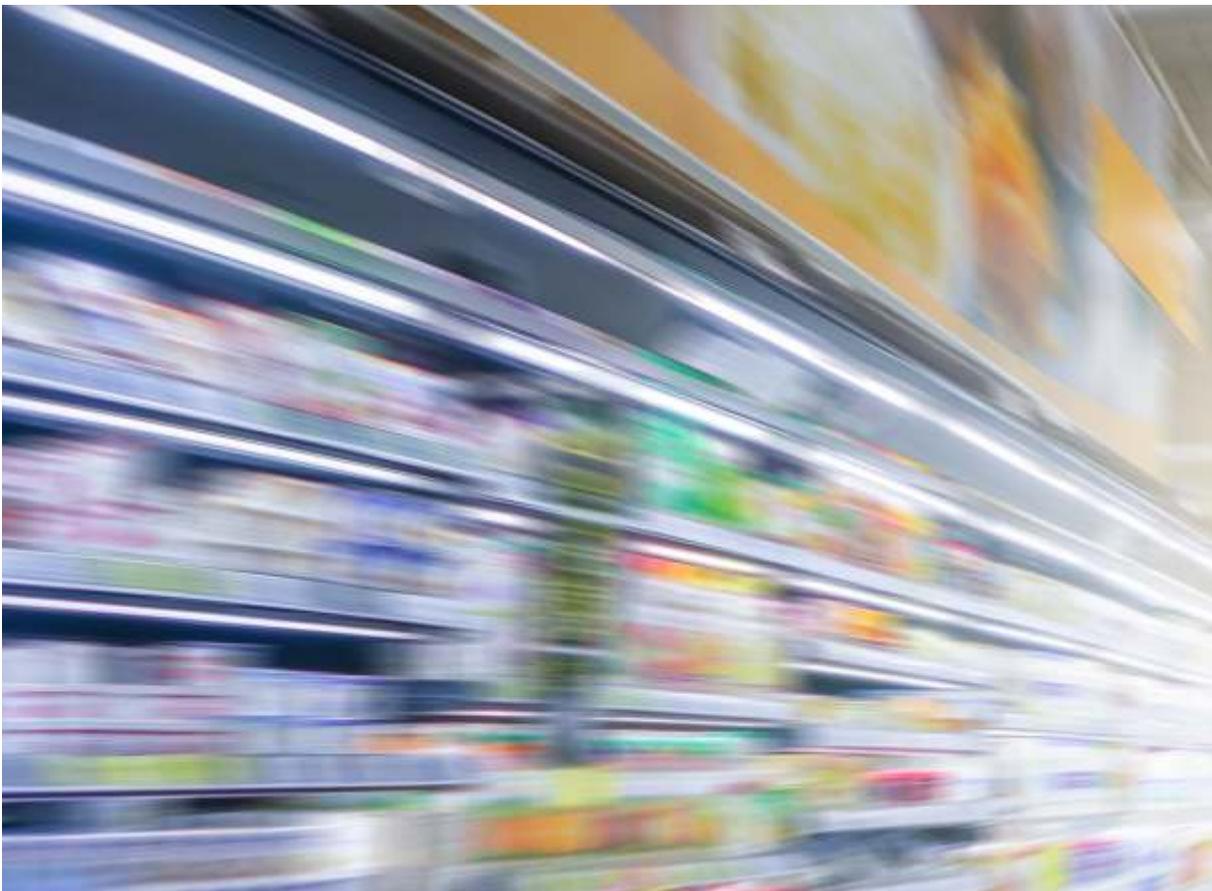
Our analysis of program communication channels delivers a few expected results as well as certain insights which retailers can leverage to enhance their promotion strategy. Most notably, while a significant majority of retailers are increasing their marketing spend on social media channels, program members want to be notified only once in a quarter through this channel.

Exhibit 17

Preferred Communication Cadence by Channels



Source: WNS DecisionPoint™ Analysis, WNS Loyalty Engagement Survey
Note: n=1303, Individuals subscribing to at least one loyalty program.



CONCLUSION

Once a key differentiator, loyalty programs have become more or less table stakes in the retail ecosystem as evidenced by the increase in total membership but a noticeable fall in activity levels. Retailers that are able to leverage advancements in technology and analytics will be best positioned to re-differentiate their programs and achieve higher levels of engagement. They will have to provide their program members a

differentiated experience across multiple touchpoints as physical and digital channels converge. With evolving customer expectations, the operational challenges to do so will become even more pronounced. The same digital revolution which brings challenges creates opportunities as well. Advancements in analytics and rewards delivery solutions are leading to new frontiers in personalization.

As the retail sector shifts more and more towards online channels, customers will have more options to shop from at the click of a button. In this scenario, loyalty programs act as a key differentiator by driving higher levels of engagement. Retailers that stay ahead of the curve and deliver customized benefits to their program members will be best positioned to stay relevant.



APPENDIX

Appendix 1

Comparative Analysis of Loyalty Programs (Traditional Department Store)

| Retailer & Loyalty Program | Frequency Reward Component | | Customer Tier Component | | Motivators & Redemption | |
|----------------------------------|---|--|--|---|--|--|
| | Points per Dollar | Value per Point | Customer Tiers | Tier Eligibility Requirements (per year) | Motivators | Redemption Options |
| Macy's: Star Rewards | 0.3 points per dollar (assuming median spending of \$250, which will activate 3 Star Passes of \$25 each) | \$1 Rewards Cash for every point earned | RedCard, GoldCard, PlatinumCard, EliteCard | RedCard: \$0-\$499.99 spend at Macy's GoldCard: \$500-\$999.99 spend at Macy's PlatinumCard: \$1000-\$2499.99 spend at Macy's EliteCard: \$2500+ spend at Macy's | a. Currency b. Discounts c. Member Privileges d. Promotional Programs | a. Discounts |
| Kohl's: Yes-2-You Rewards | 1 Kohl's Rewards point per dollar | \$5 Rewards Cash for every 100 points earned | Non Charge, Charge, MVC Charge | Non Charge: Members who enroll in Yes-2-You program without Kohl's Charge card Charge: Members who enroll in Yes-2-You program using Kohl's Charge card MVC Charge: Charge cardholders who spend \$600+ annually at Kohl's | a. Currency b. Discounts c. Promotional Programs | a. Discounts b. Member exclusive events c. Personalized free gifts |

Source: WNS DecisionPoint™ Analysis, Colloquy, Terms & Conditions disclaimer from specific retailer

Note: Two programs per sector have been benchmarked based on publicly available data

Appendix 2

Comparative Analysis of Loyalty Programs (Big Box Retailers)

| Retailer & Loyalty Program | Frequency Reward Component | | Customer Tier Component | | Motivators & Redemption | |
|----------------------------|--|--|--|---|---|--------------------------------------|
| | Points Earned | Value per Point | Customer Tiers | Tier Eligibility Requirements (per year) | Motivators | Redemption Options |
| Walmart: 3-2-1 Save | 3% of purchase value at Walmart.com, 2% of purchase value at Walmart and Murphy USA gas stations, 1% of all purchase using Walmart Cards | \$1 for every point | Account Type 1, Account Type 2, Account Type 3 | Tiers are decided based on enrollment terms of the bank underwriting the card. Higher tiers, i.e. Account Type 2, Account Type 3 invoke higher charges. | a. Discounts b. Member Privileges | a. Discounts |
| Target: REDCard | Not applicable | 5% cashback on most in-store and Target.com purchase with instant redemption | Not applicable | Not applicable | a. Discounts b. Member Privileges c. Promotional Programs | a. Discounts b. Charity Donations |

Source: WNS DecisionPoint™ Analysis, Colloquy, Terms & Conditions disclaimer from specific retailer

Note: Two programs per sector have been benchmarked based on publicly available data

Appendix 3

Comparative Analysis of Loyalty Programs (Food & Grocery Retailers)

| Retailer & Loyalty Program | Frequency Reward Component | | Customer Tier Component | | Motivators & Redemption | |
|---------------------------------|--|-----------------|-------------------------|--|--|--------------------------------------|
| | Points per Dollar | Value per Point | Customer Tiers | Tier Eligibility Requirements (per year) | Motivators | Redemption Options |
| Wegman's: Shopper's Club | Not applicable (No defined discount percent or points on purchase, members earn random discounts on their purchases) | Not applicable | Not applicable | Not applicable | a. Discounts b. Member Privileges | a. Discounts b. Merchandise |
| Food Lion: MVP Card | Not applicable Variable discounts on products | Not applicable | Not applicable | Not applicable | a. Currency b. Discounts c. Promotional Programs | a. Discounts b. Charity Donations |

Source: WNS DecisionPoint™ Analysis, Colloquy, Terms & Conditions disclaimer from specific retailer

Note: Two programs per sector have been benchmarked based on publicly available data

Appendix 4

Comparative Analysis of Loyalty Programs (Specialty Apparel Retailers)

| Retailer & Loyalty Program | Frequency Reward Component | | Customer Tier Component | | Motivators & Redemption | |
|--|--|---|--|---|--|--|
| | Points per Dollar | Value per Point | Customer Tiers | Tier Eligibility Requirements (per year) | Motivators | Redemption Options |
| Gap: Gap Card | 5 Gap Reward points per dollar (at Gap stores) 1 Gap Reward point per dollar (non-Gap purchase using VISA card) | \$5 Rewards for every 500 points earned | Regular, Silver | Regular: On enrollment Silver: On earning 5000 Gap Reward points | a. Currency b. Discounts c. Member Privileges d. Promotional Programs | a. Discounts b. Member Exclusive Events |
| American Eagle Outfitters: AE Rewards | 1 AE Reward point per dollar | 15% off on earning 100 points, 20% off on earning 200 points, 30% off on earning 300 points, 40% off on earning 500 points | No named tiers, the points thresholds function as tiers themselves | Not applicable | a. Currency b. Promotional Programs | a. Discounts b. Member Exclusive Events |

Source: WNS DecisionPoint™ Analysis, Colloquy, Terms & Conditions disclaimer from specific retailer

Note: Two programs per sector have been benchmarked based on publicly available data

Appendix 5

Comparative Analysis of Loyalty Programs (Upscale Apparel Retailers)

| Retailer & Loyalty Program | Frequency Reward Component | | Customer Tier Component | | Motivators & Redemption | |
|-------------------------------------|--|---|--|---|--|---------------------------------|
| | Points per Dollar | Value per Point | Customer Tiers | Tier Eligibility Requirements (per year) | Motivators | Redemption Options |
| Nordstrom: Nordstrom Rewards | 1 Reward point per dollar (normal members) 2 Reward point per dollar (cardholders) 1 Reward point per dollar (outside purchase by cardholders) | \$20 note for every 2000 Reward points | Level 1, Level 2, Level 3, Level 4 | Level 1: \$1-\$1999 spend per year Level 2: \$2000-\$4999 spend per year Level 3: \$5000-\$9999 spend per year Level 4: \$10000+ spend per year | a. Currency b. Member Privileges c. Promotional Programs | a. Discounts b. Merchandise |
| Neiman Marcus: InCircle | 2 InCircle points per dollar | \$100 Point Card issued for every 10,000 points | Circle One, Circle Two, Circle Three, Circle Four, Circle Five, Circle Six, President's Circle, Chairman's Circle | Spend Requirements Circle One: \$0-\$999 Circle Two: \$1000-\$2499 Circle Three: \$2500-\$4999 Circle Four: \$5000-\$9999 Circle Five: \$10000-\$34999 Circle Six: \$35000-\$74999 President's Circle: \$75000-\$599999 Chairman's Circle: \$600000+ | a. Currency b. Member Privileges c. Promotional Programs | a. Gift Cards b. Merchandise |

Source: WNS DecisionPoint™ Analysis, Colloquy, Terms & Conditions disclaimer from specific retailer

Note: Two programs per sector have been benchmarked based on publicly available data

Appendix 6

Comparative Analysis of Loyalty Programs (Off Price and Wholesale Clubs)

| Retailer & Loyalty Program | Frequency Reward Component | | Customer Tier Component | | Motivators & Redemption | |
|--|--|--|--|--|---|--|
| | Points per Dollar | Value per Point | Customer Tiers | Tier Eligibility Requirements (per year) | Motivators | Redemption Options |
| Dollar Tree: Value Seekers Club | Not applicable (No defined discount percent or points on purchase. Members earn random discounts on their purchases) | Not applicable | Not applicable | Not applicable | a. Member Privileges b. Promotional Programs | a. Not applicable |
| BJ's Wholesale: BJ's Rewards | 2% of purchase value added as points up to \$500 per annual membership period (BJ's Perks Rewards) | \$20 certificate on \$20 balance in points | Perks Rewards, Perks Plus, Perks Elite | Perks Rewards: No requirement Perks Plus: \$50 membership fee; \$40 annual renewal fee Perks Elite: \$100 membership fee; \$75 annual renewal | a. Discounts b. Member Privileges c. Promotional Programs | a. Merchandise b. Rebates c. Travel / Hotel d. Gift Cards e. Discounts |

Source: WNS DecisionPoint™ Analysis, Colloquy, Terms & Conditions disclaimer from specific retailer

Note: Two programs per sector have been benchmarked based on publicly available data

Appendix 7

Comparative Analysis of Loyalty Programs (Office Supplies Retailers)

| Retailer & Loyalty Program | Frequency Reward Component | | Customer Tier Component | | Motivators & Redemption | |
|---|--|----------------------|-------------------------|--|---|---|
| | Points per Dollar | Value per Point | Customer Tiers | Tier Eligibility Requirements (per year) | Motivators | Redemption Options |
| Staples: Staples Rewards | 5% of purchase value is credited as rewards (maximum 10 purchases a day) | \$1 for every point | Regular, Plus, Premium | Regular: On enrollment at a Staples store or online Plus: Achieve spend of \$500 in an year Premium: Achieve spend of \$1000 in an year | a. Member Privileges b. Promotional Programs | a. Discounts |
| Office Depot: Office Depot Office Max Everything | 2% of purchase is credited as rewards | \$1 for every reward | Regular, VIP | Regular: On enrollment at a Office Depot store or online VIP: Achieve annual spend \$500 on Office Depot purchases | a. Currency b. Member Privileges | a. Discounts b. Rebates c. Gift Cards |

Source: WNS DecisionPoint™ Analysis, Colloquy, Terms & Conditions disclaimer from specific retailer

Note: Two programs per sector have been benchmarked based on publicly available data



About DecisionPoint

Making key decisions that improve business performance requires more than simple insights. It takes deep data discovery and a keen problem solving approach to think beyond the obvious. As a business leader, you ought to have access to information most relevant to you that helps you anticipate potential business headwinds and craft strategies which can turn challenges into opportunities finally leading to favorable business outcomes.

WNS DecisionPoint™, a one-of-its kind thought leadership platform tracks industry segments served by WNS and presents thought-provoking original perspectives based on rigorous data analysis and custom research studies. Coupling empirical data analysis with practical ideas around the application of analytics, disruptive technologies, next-gen customer experience, process transformation and business model innovation, WNS aims to arm you with decision support frameworks based on 'points of fact.' Drawing on our experience from working with 200+ clients around the world in key industry verticals, and knowledge collaboration with carefully selected partners including Knowledge@Wharton, each research asset comes up with actionable insights with the goal of bringing the future forward.

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