The retailer's guide to loyalty experimentation
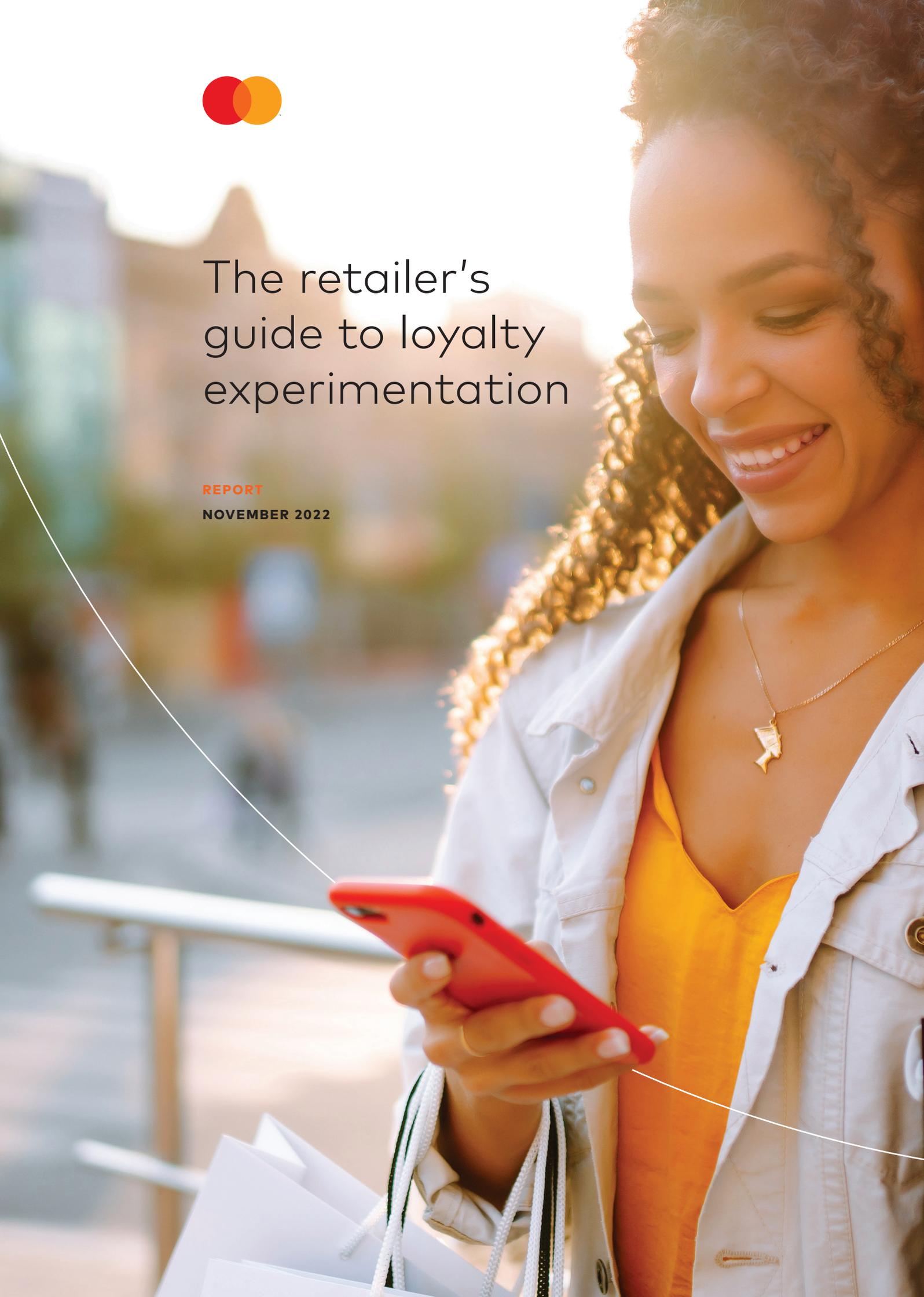
Introduction

8%

increase in spending on goods, which surged from 39% to around 47% of total spend.[1]

35%

increase in international tourism spending on recreational activities earlier this year, compared to a decrease in spending on retail categories.[2]

With the onset of the pandemic, travel restrictions spurred many consumers to shift their budgets from traveling to shopping. These new shopping behaviors benefited retailers globally with a dramatic increase in spending on goods, which surged from 39% to around 47% of total spend.[1] But as the world seeks the **new normal**, consumers' interest is shifting back to services.

Earlier this year, international tourism spending at concerts, amusement parks, museums and other recreational activities rose by 35% whereas spending on retail categories was down compared to 2019.[2] The shift back to spending on experiences, coupled with rising inflation and shortages caused by supply chain issues, has challenged retailers' ability to retain customers gained during the pandemic.

To stay competitive, many retailers are launching new initiatives aimed at upgrading their digital advertisements, **personalization tactics** and overall **loyalty programs**. However, these investments can be quite expensive. To ensure leadership buy-in, retail marketers must be able to not only measure the effectiveness of these initiatives, but also unlock opportunities for further optimization.

Retail marketers can measure and optimize these initiatives by using **business experimentation** to answer key questions.

1. What is the overall incremental impact of the initiative?

2. Which aspects of the initiative work best?

3. Which types of customers or markets changed their behavior due to the initiative?

4. How can we target rollout of the initiative to maximize profitability?

In this report, we explore how business experimentation can enhance retailers' digital advertisements, personalization tactics and loyalty programs.

Digital advertisements

20%

of the peak in the shift to e-commerce has stuck permanently for the retail sector.[1]

36%

of retailers face challenges with measuring the impact of their digital spend.[5]

The pandemic caused a massive shift to digital with $900B spent incrementally at online retailers around the world in 2020.[3] Digital has continued to be a critical channel for retailers as roughly 20% of the peak in the shift to e-commerce has stuck permanently for the retail sector.[1]

As a result, the amount of time and energy people spend on digital channels every minute of every day has grown exponentially. Retailers are looking to capitalize on this shift with more digital and omnichannel advertisements. Thirty-seven percent of retailers cite paid online search as their top tool for acquiring customers, and 31% cite paid social advertising.[4]

To break through the digital noise and improve consumers' digital experiences, retailers must be able to deliver the right message and effectively quantify the results. However, 58% of retailers face challenges targeting or segmenting their audience[5] and 36% with measuring the impact of their digital spend.[6] Experimentation can play an essential role in understanding in near real time how campaigns are reaching their ideal consumers and if they're driving sufficient ROI.

Explore how a retailer in the UK used Mastercard Test & Learn® to optimize the impact of paid search marketing

Results:

4.1%

increase in incremental sales.

207%

ROI from the paid search campaign.

A large UK retailer was investing heavily in paid search marketing but was unsure if the investment was driving incremental sales. The retailer conducted an internal analysis using a randomized control group but was skeptical about the results.

The retailer decided to use Test & Learn® to evaluate the marketing investment. **Test & Learn®** is a multi-patented experimentation platform that enables organizations to accurately measure and optimize business initiatives. The software delivered statistically accurate results by using patented algorithms to identify the optimal test and control group mapping of postal codes. Test & Learn® measured a 4.1% increase in incremental sales for stores within the postal codes showing the paid search ads.

By further analyzing the campaign results, Test & Learn® helped the retailer identify customer segments and product categories that responded best to the ads. Overall, the paid search campaign resulted in 207% ROI and proved to be a stronger driver of incremental sales compared to other marketing channels.
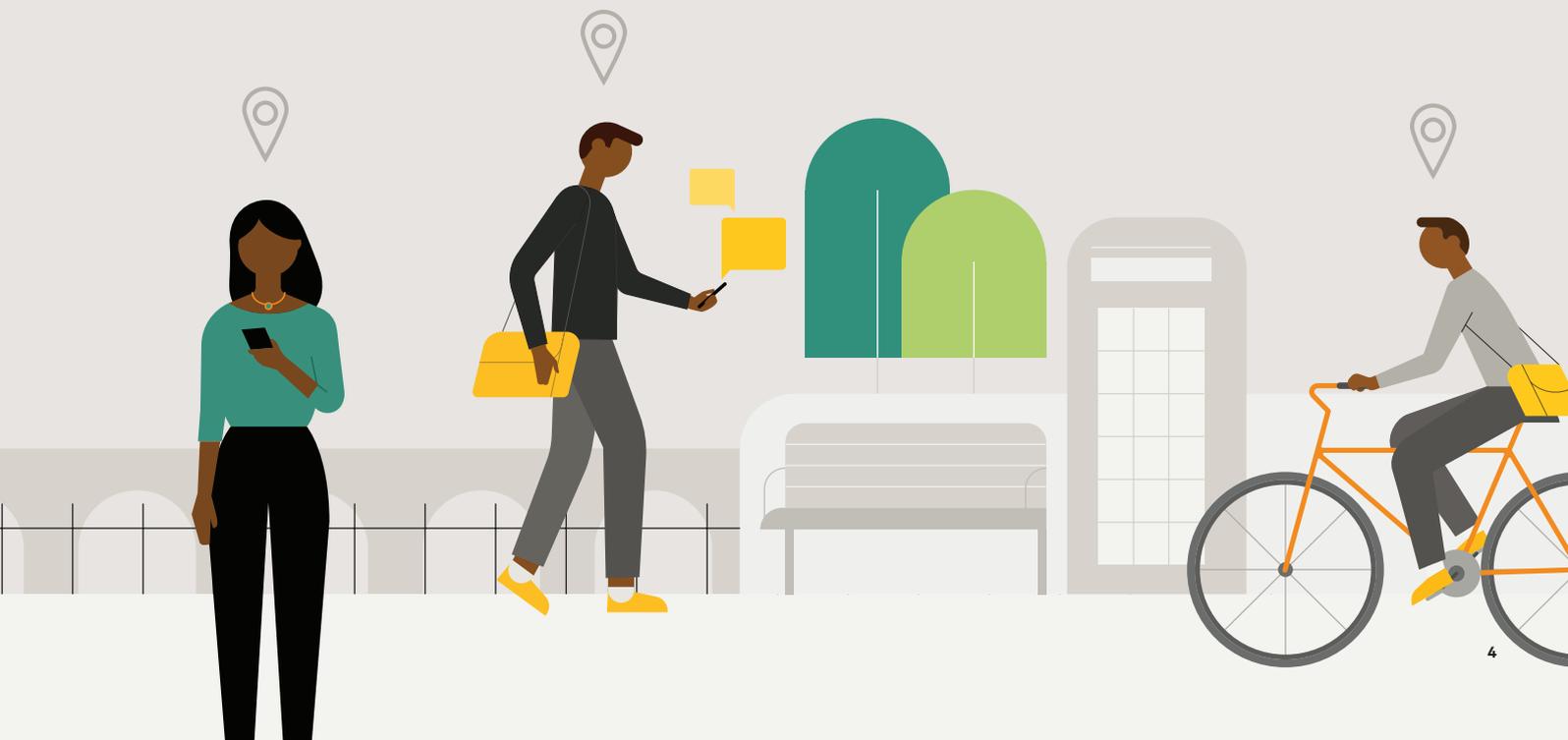
Learn how a retailer in Australia used Test & Learn® to analyze their nationwide, omnichannel marketing campaign

Results:

12%

increase in sales from the additional marketing investment.

2.7x

increase in ROI from the additional campaign.

A retailer in Australia ran a nationwide, omnichannel marketing campaign around the holidays, spanning several channels including, radio, social, TV and more. According to a third-party service, the retailer spent $3 million more on this campaign relative to their competition. The retailer wanted to understand the incremental impact of this investment, but the nationwide scope meant they could not find a valid benchmark for performance.

The retailer was able to quantify the true impact of the additional marketing spend using Test & Learn® for market-wide initiatives. This methodology predicted the retailer's expected performance in the absence of the campaign by using machine learning, proprietary Mastercard retail transaction data and correlated market datasets. By calculating the difference between the actual and predicted performance after the campaign launch, the retailer was able to understand the campaign's incremental impact.

Test & Learn® for market-wide initiatives calculated the difference between the actual and predicted performance after the campaign launch and found that the additional marketing investment drove a 12% increase in sales, with most of the increase occurring during Black Friday and the week before Christmas.

By breaking the results down further, the retailer discovered that the lift was driven primarily by a strong increase in online sales. Overall, the additional campaign spending resulted in a 2.7x increase in ROI, driven by a substantial increase in the gross margin relative to the costs. The retailer was able to use these findings to justify additional marketing spend for their next holiday campaign and focused that campaign primarily on digital channels.

Personalization tactics

93%

of global companies either believe in the value of personalization, understand its benefits to the larger business strategy or have made it core to their customer experience operations.[8]

78%

of consumers are not fully satisfied with the level of personalization they see from companies.[9]

Consumers demand hyper-personalization across all channels, from email to direct mail and text messages, and many brands are stepping up efforts to meet this expectation. Eighty percent of consumers want promotions tailored to their needs and they expect more from companies to retain their loyalty.[7]

In line with consumer expectations, 93% of global companies either believe in the value of personalization, understand its benefits to the larger business strategy or have made it core to their customer experience operations.[8] Still, there is room for improvement, as 78% of consumers are not fully satisfied with the level of personalization they see from companies.[9]

To upgrade their personalization capabilities, many retailers are implementing new tactics to customize the experience across a variety of channels including email and direct mail. Within this omnichannel approach, they are using personalization to enhance promotions, campaigns, offers and product recommendations. By combining first-party data on consumers' purchasing habits with external third-party data, many retailers are unlocking opportunities to further enrich their personalization capabilities.

Although personalization efforts have come a long way, retailers face several obstacles. The toughest personalization challenge, cited by 75% of retailers, involves analyzing data to determine the optimal communications and offers.[4] By using business experimentation, retailers can automatically scan hundreds of attributes to identify the strongest drivers of performance. Retailers can then create models to tailor and target their various personalization initiatives to the customers predicted to respond best.

Discover how a European retailer used Test & Learn® to enhance their Personalized Card-Linked Offers

Results:

7%

lift in incremental spend.

100%

increase in incremental spend by targeting personalized offers.

A European retailer had been using Mastercard's Personalized Card-Linked Offers to build brand preference and improve the customer experience by enabling simple, card-linked offers. The retailer wanted to understand the incremental value of these offers and how to target future offers more effectively.

The retailer used Test & Learn® to analyze the personalized offers. The analysis showed that the offers drove a 7% lift in incremental spend and that the campaign was more successful with engaged customers who spent more with the retailer in the past two months.

By using these insights, the retailer was able to drive a 100% increase in incremental spend by targeting the personalized offers to the more engaged customer segment.
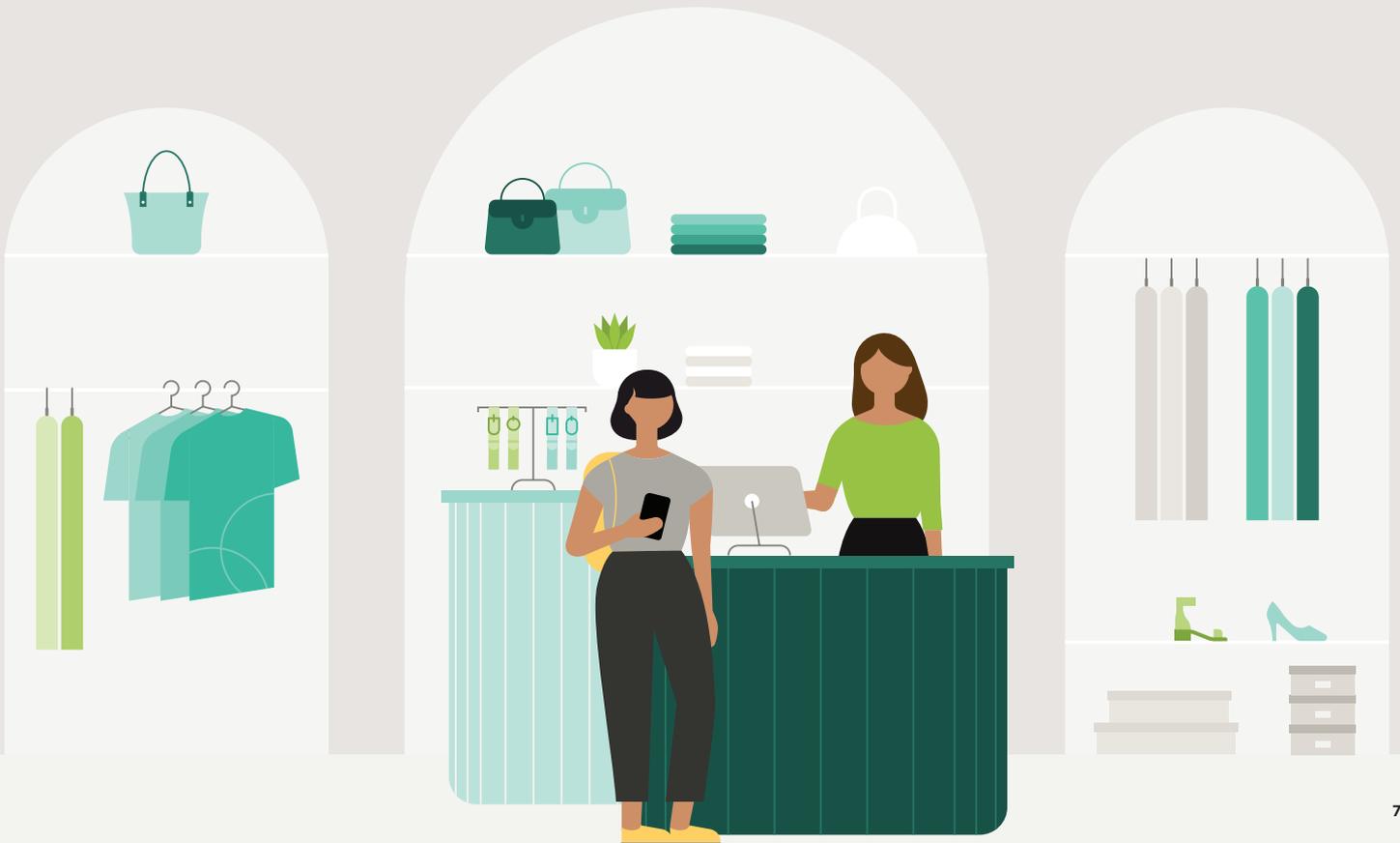
Loyalty programs

72%

of executives say optimizing customer loyalty is a top-five priority of senior management at their organization.[10]

58%

of brands do not believe their loyalty strategy is effective.[10]

Digital advertisements and personalization tactics are critical for driving loyalty. However, to turn customers into brand advocates, retailers must supplement these tactics with a best-in-class loyalty program. Seventy-two percent of executives say optimizing customer loyalty is a top-five priority of senior management at their organization.[10] Although retailers recognize the importance, many brands struggle to win customers' loyalty. Fifty-five percent of brands say they have refreshed their loyalty program in the past two years, but 58% still do not believe their loyalty strategy is effective.[10]

Over the past few years, retailers have been able to capture large amounts of customer data through their loyalty programs, but many struggle to turn this data into actionable recommendations that build loyalty. To develop deeper customer relationships, sophisticated players are using this data to create a 360-degree view of the customer and dynamically updating that view based on real-time actions. As a result, these brands can deliver more customized rewards, experiences, and gamification, which are automatically triggered by consumer behavior and needs. Combining these capabilities with predictive analytics, retailers hope to drive changed behaviors and incrementality from their customers.

As retailers ramp up their loyalty investments in new areas such as gamification, marketers must be able to quantify the overall impact and understand how various customer segments and markets respond. By using business experimentation, retailers can evaluate their loyalty strategy and determine opportunities to deepen customer relationships and enhance the overall experience.

Explore how a convenience retailer used Test & Learn® to evaluate their SessionM loyalty program

Results:

6%

in test and control bias, rather than 22% before using Test & Learn®.

8.8%

lift in incremental sales.

A North American convenience retailer used SessionM to power their opt-in loyalty program, combining above-the-line design (points, tiers, rewards) with compelling below-the-line tactics and tools. **SessionM** is a powerful customer data and engagement platform. However, the retailer struggled to measure the loyalty program's true performance due to their weak control-matching capabilities.

By using the first-party data collected on the SessionM platform, the retailer was able to set up an analysis with Test & Learn®. Patented test and control algorithms were leveraged to reduce test and control bias from 22% to less than 6%. This synthetic control selection enabled the retailer to accurately read the incremental performance of the loyalty program.

Test & Learn® showed that the loyalty program was driving an 8.8% lift in incremental sales. To further enhance their SessionM-powered loyalty program, the retailer is now using Test & Learn® to optimize outreach tactics through targeting promotions to high-potential customer segments.

Learn how a convenience retailer used Test & Learn® to evaluate the impact of their gamification strategy

Results:

4.8%

lift in traffic.

A fuel and convenience company wanted to measure the incremental impact of allowing their loyalty program customers to play a game and win rewards via their loyalty app. The company needed help measuring the incrementality, given that no holdout group was used and comparing game-playing customers to non-game-playing customers would be inherently biased.

The company used Test & Learn® to resolve the biases by applying an advanced synthetic control methodology to retroactively identify a well-matched control group. This enabled the company to accurately measure the incremental impact of the initiative.

By using Test & Learn®, the fuel and convenience company found that allowing their loyalty program customers to play a game and win rewards via their loyalty app resulted in a 4.8% lift in traffic, primarily driven by an increase in the number of transactions in the store. As a next step, the company worked with Mastercard to understand how to tailor the gamification strategy to the customers predicted to respond the best.

Conclusion

Retailers today are facing increased competition from both in and outside their industry. The resurgence in services is shifting budgets from shopping to travel, challenging retailers' ability to retain consumers gained during the pandemic and grow their business.

New initiatives aimed at upgrading retailers' digital advertisements, personalization tactics and overall loyalty programs can be effective. But to truly stand out from the competition, retailers must use business experimentation to effectively optimize these initiatives.

To understand business experimentation in more detail and how to make smarter decisions with better outcomes, please reach out to a Mastercard representative.

Endnotes

1   Economic Outlook 2022, Mastercard Economics Institute, December 2021.
2   Travel 2022: Trends and Transitions, Mastercard Economics Institute, May 2022.
3   Recovery Insights: Commerce E-volution, Mastercard Economics Institute, March 2021.
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5   Forrester Report, 2021.
6   Ad Measurement and Revenue Attribution 2021, Acxiom, 2021.
7   The Age of Personalization, A Mastercard-Sponsored Report by Harvard Business Review Analytic Services, 2018.
8   The State of Personalization Maturity – Q4 2021, Dynamic Yield, 2021.
9   The Loyalty Report '19: The New Story of Loyalty, Bond, 2019.
10   Beyond Rewards, A Mastercard-Sponsored Report by Harvard Business Review Analytic Services, 2019.