Q1 2021

CONSUMER CONNECT: LOYALTY SNAPSHOT

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Content and Thought Leadership

March 2021

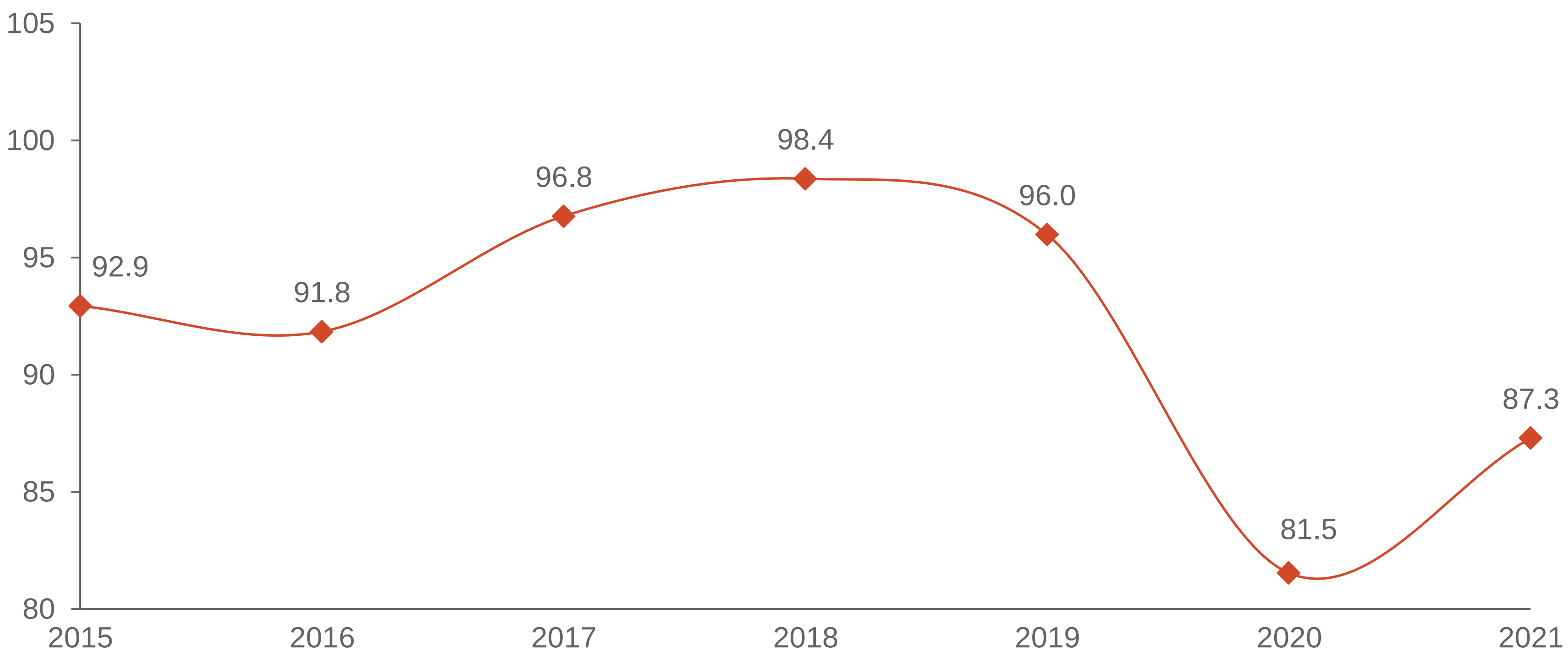
Growth delivered.

Executive Summary

- Despite the turmoil of 2020 due to COVID-19, consumers' attitudes toward their household financial health remains similar in 2021.
- Consumer sentiment took a tumble among the dual health and financial crises of 2020 but is showing strong signs of recovery in early 2021.
- As seen throughout 2020, consumers report they prefer to shop fewer stores and are less inclined to clip coupons. Their desire to shop deals remains strong.
- Among subscription service vendors, Amazon Prime holds the strongest lead, followed by Chewy for pet products, and Walmart+.
- Drug and grocery channels lead in loyalty/reward adoption, with high-income households most likely to hold reward memberships across the most channels.
- Consumers are interested in personalizing their loyalty experience.
- Benefits influence membership and membership influences which stores to shop.
- Consumers want to see new benefits and experiences as a reward for loyalty.

Consumer Sentiment Is Trending Back Up From Dismal 2020

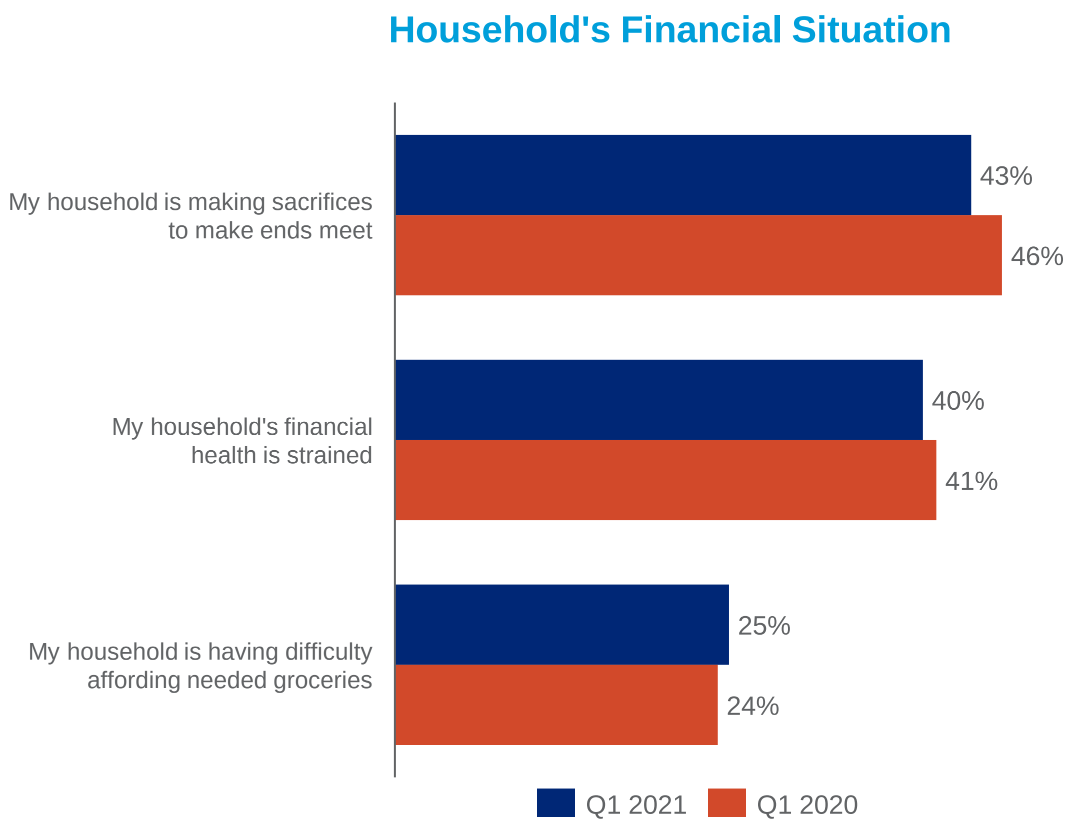
Consumer Sentiment Index
February 2021



Source: IRI, based on University of Michigan; Moody's Analytics Forecasted 2021

Consumers' Financial Health Remains Fairly Consistent to Year-Ago Levels

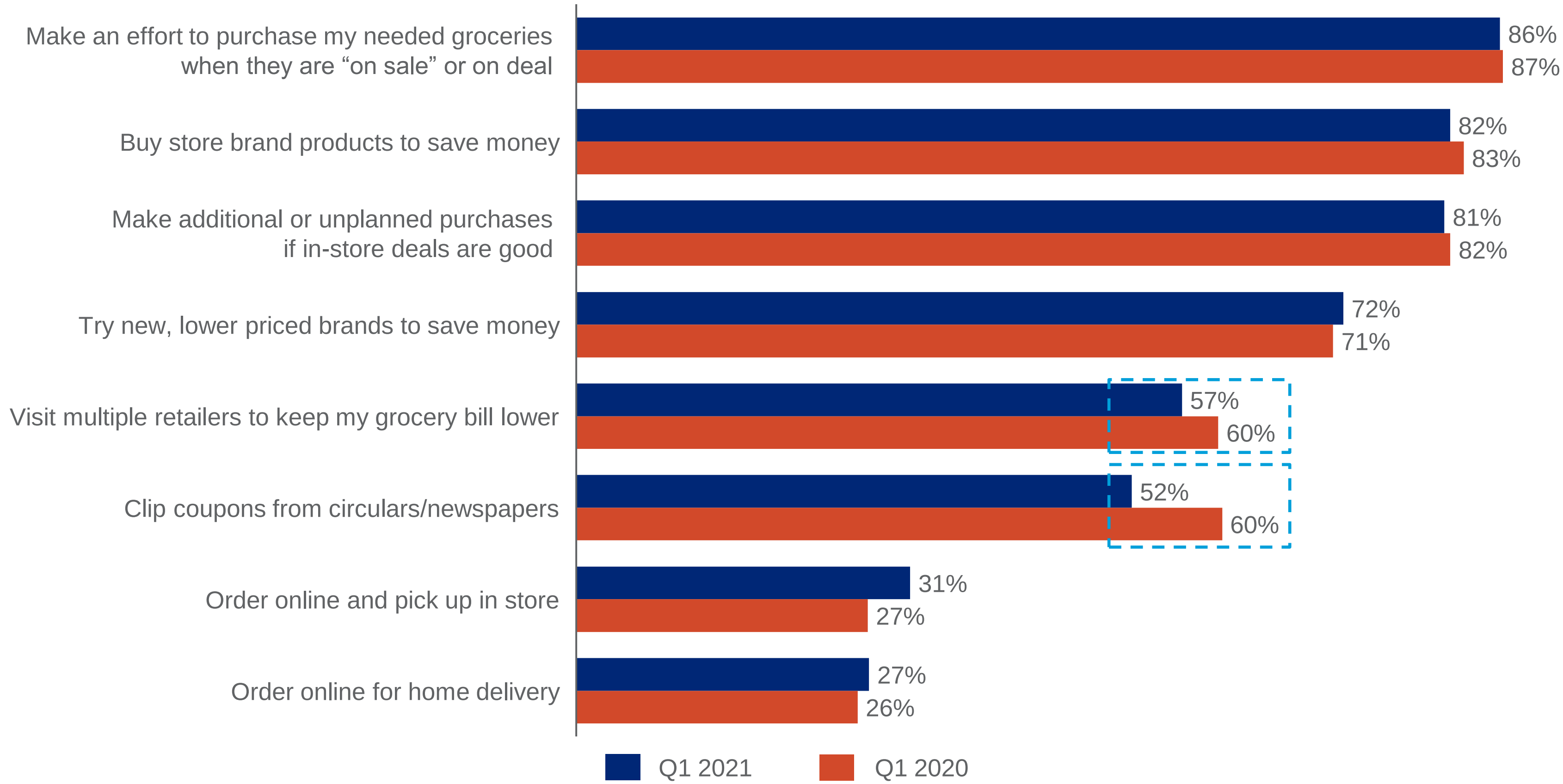
Despite Higher Unemployment and Economic Challenges



Agree With Statement Much More/Somewhat More
Source: IRI Consumer Connect™, Q1 2021

Consumers Shopping Fewer Stores to Seek Deals and Show Less Interest in Clipping Coupons

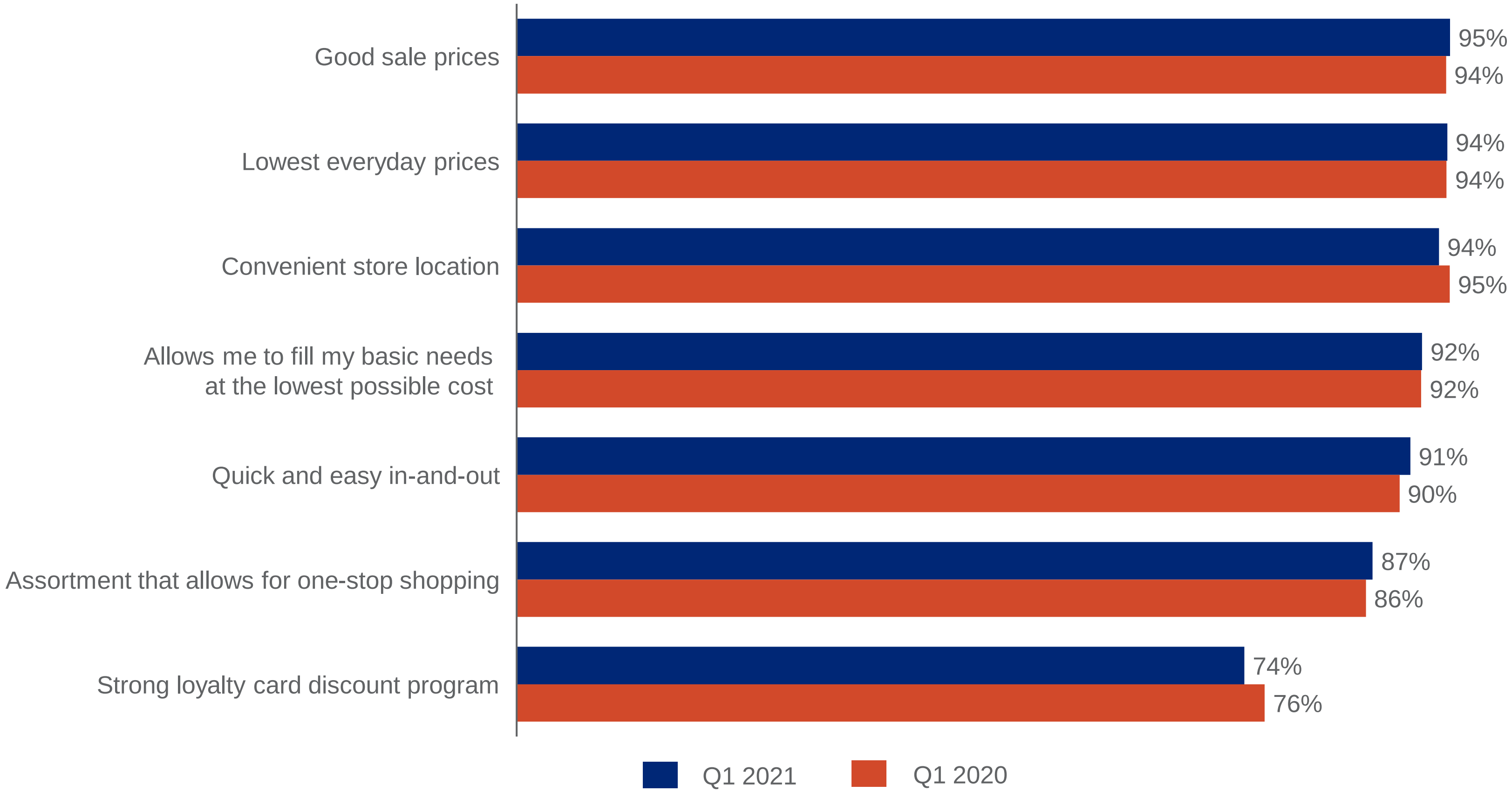
Consumer Grocery Shopping Behavior
Total Population



Frequently/Occasionally Summary
Source: IRI Consumer Connect™, Q1 2021

Good Value, Convenient Store Location and Strong Loyalty Card Discount Programs Are Key Drivers in Choosing Where to Shop

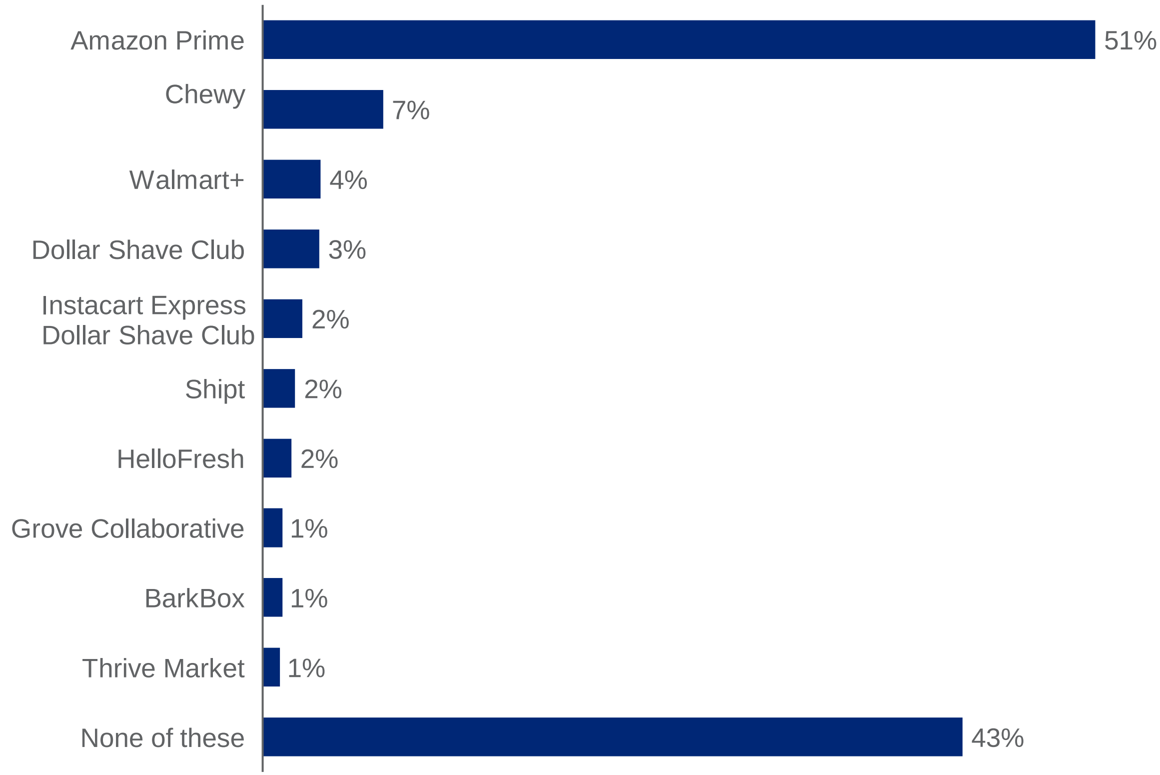
Consumer Grocery Shopping Behavior
Total Population



Very/Somewhat Important Summary
Source: IRI Consumer Connect™, Q1 2021

Amazon Prime, Chewy and Walmart+ Are the Top Subscription Services Among Consumers

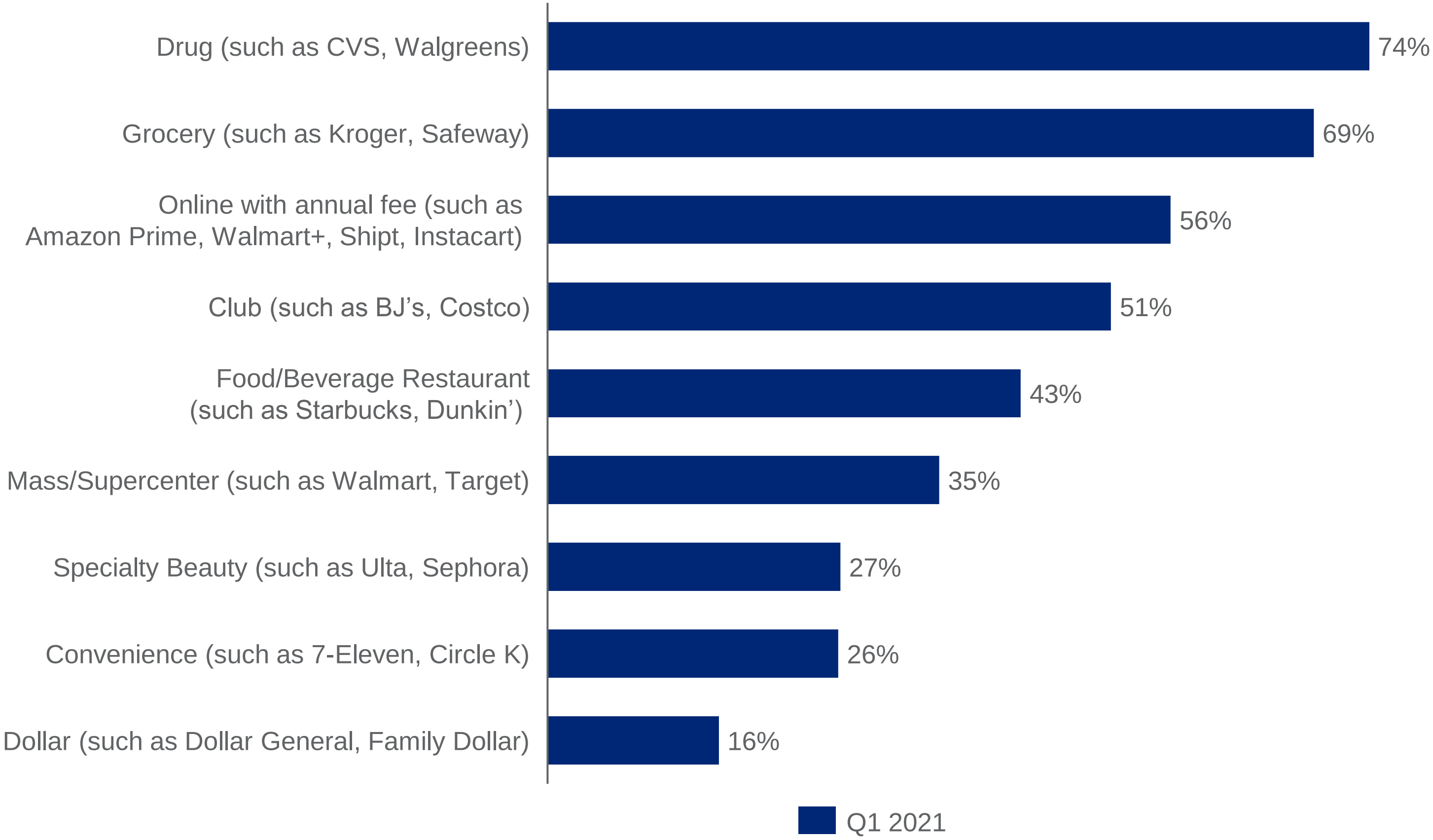
Subscription Services
Total Population



Source: IRI_SubscriptionServices_January'21_Omnibus

Drug, Grocery and Online Paid Programs Are Top Shopper Loyalty/Rewards Membership Choices

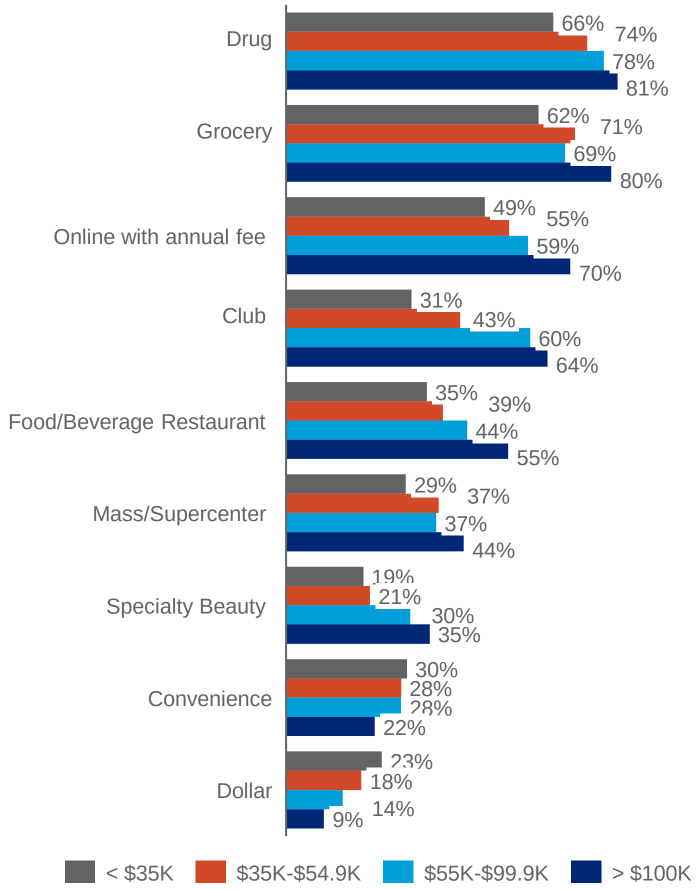
Shopper Loyalty Card/Rewards Membership
Total Population



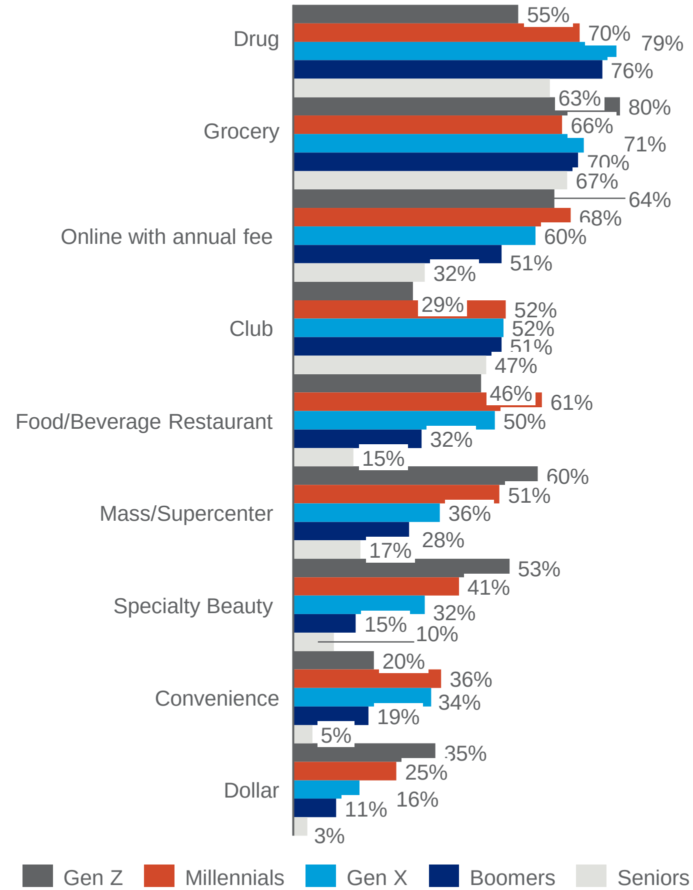
I have a shopper loyalty card/rewards membership Summary
Source: IRI Consumer Connect™, Q1 2021

High-Income Group More Likely to Have Shopper Loyalty/Rewards Membership Across Most Channels

Shopper Loyalty Card/Rewards Membership
By Income



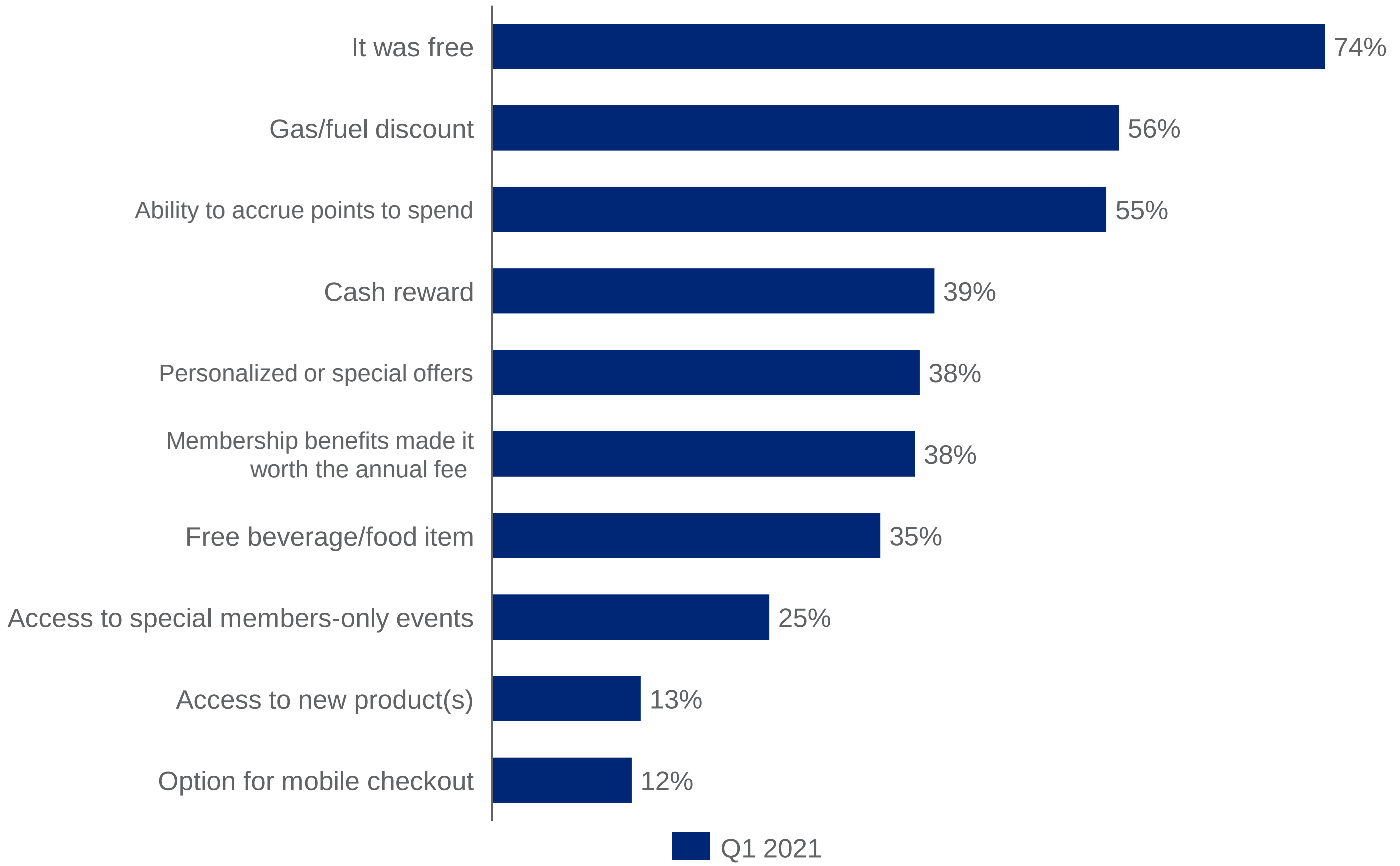
Shopper Loyalty Card/Rewards Membership
By Generation



Agree With Statement
Source: IRI Consumer Connect™, Q1 2021

Free Membership, Gas Discount and Ability to Spend Points Are Main Reasons Consumers Subscribe to Shopper Loyalty Programs

Reasons For Obtaining Shopper Loyalty Card/Rewards Membership
Total Population

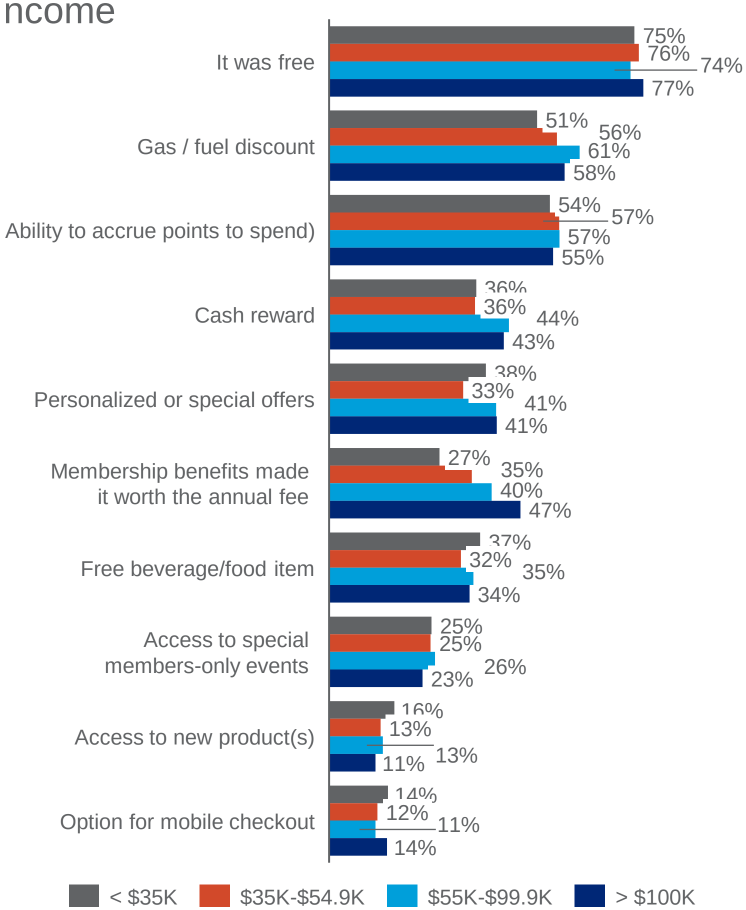


Base=Those Respondents Who Have Shopper Loyalty Card/Rewards Membership
Source: IRI Consumer Connect™, Q1 2021

Free Membership Is the Top Reason Among Income Groups While Ability to Spend Points Is Important to Mid-Income Groups

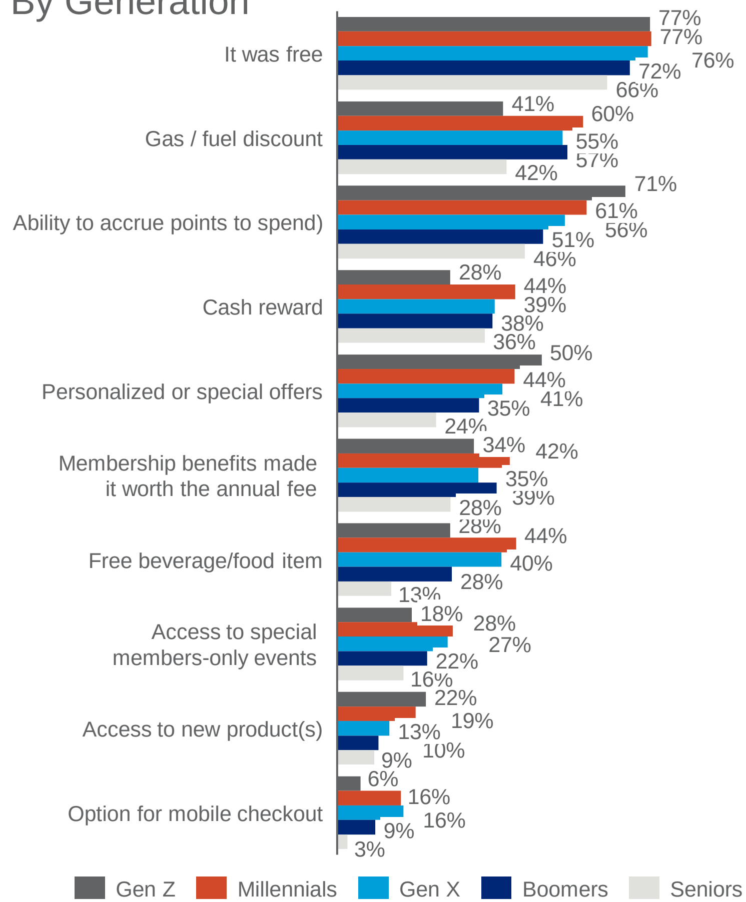
Reasons for Obtaining Shopper Loyalty Card/Rewards Membership

By Income



Reasons for Obtaining Shopper Loyalty Card/Rewards Membership

By Generation



Base=Those Respondents Who Have Shopper Loyalty Card/Rewards Membership
Source: IRI Consumer Connect™, Q1 2021

Free and Same-Day Delivery and Access to Wider Assortment Are Top Paid Membership Expectations

Expected Services/Benefits With a Paid Membership

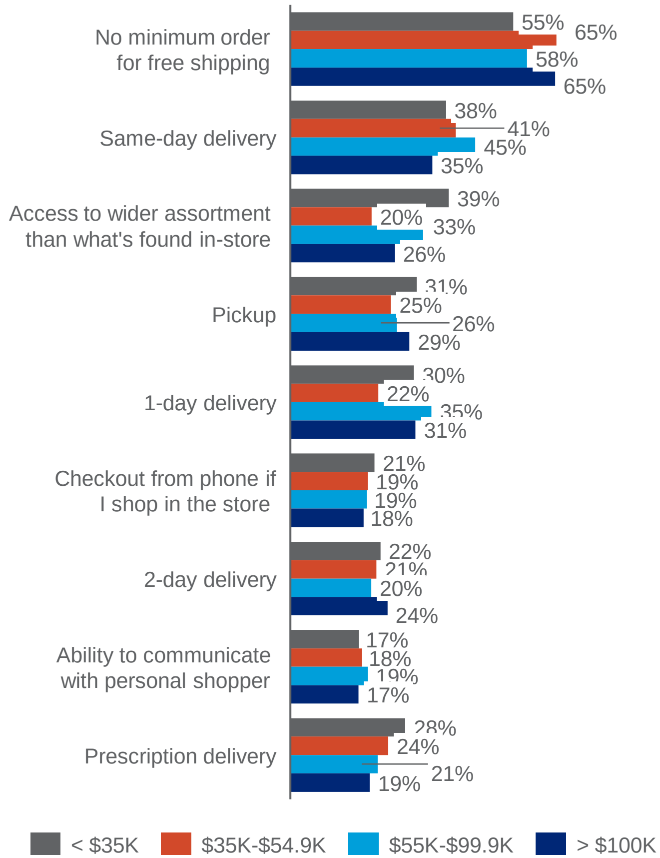
Total Population

Base=Those Respondents Who Consider/ Not Interested In Having Shopper Loyalty Card/Rewards Membership For Online With Annual Fee

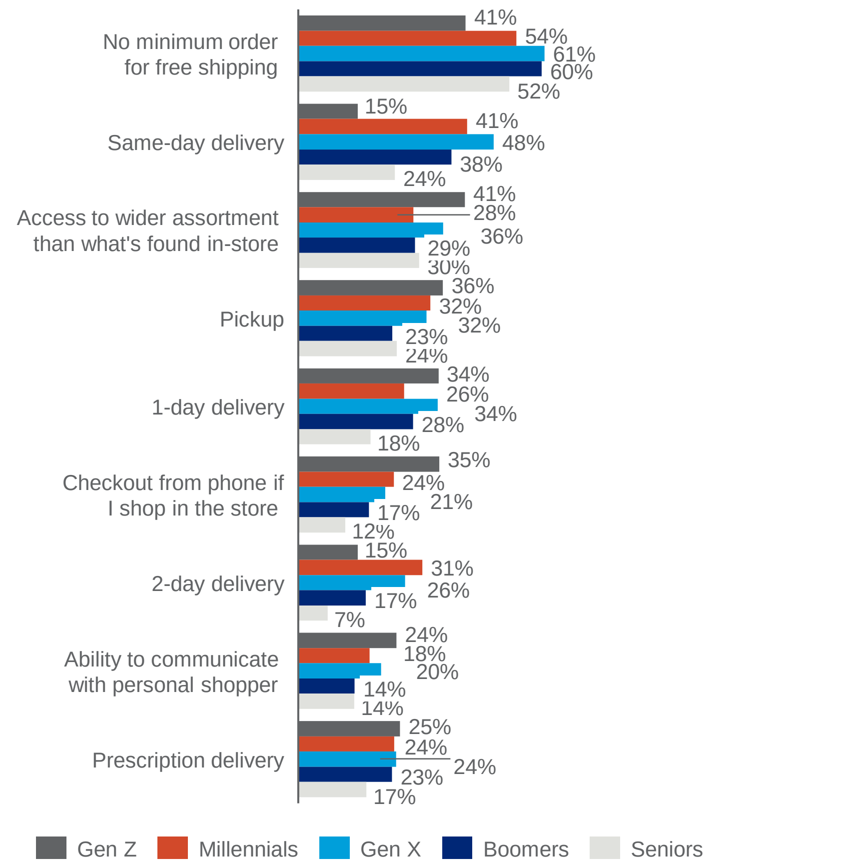
Source: IRI Consumer Connect™, Q1 2021

Among Generations, Gen Xers and Boomers Expect Free Shipping Without Order Limit From Paid Membership

Expected Services/Benefits With a Paid Membership
By Income



Expected Services/Benefits With a Paid Membership
By Generation

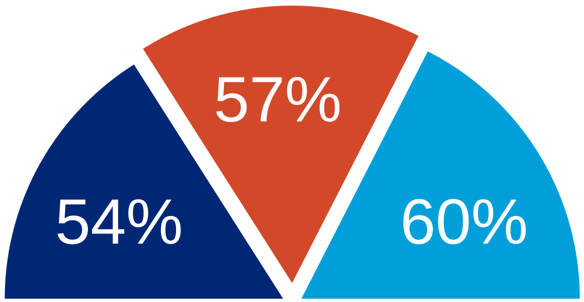


Base=Those Respondents Who Consider/Not Interested In Having Shopper Loyalty Card/Rewards Membership For Online With Annual Fee
Source: IRI Consumer Connect™, Q1 2021

Gen Xers Lead in Loyalty Program Adoption and Use, Followed by Millennials

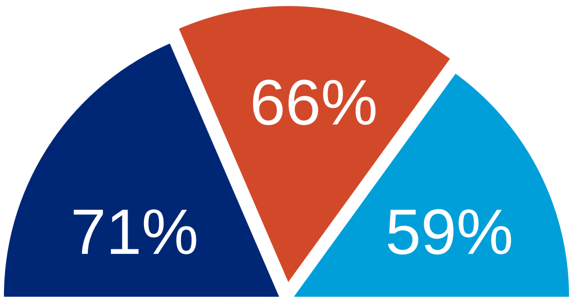
Loyalty Across the Generations

Loyalty Program Adoption



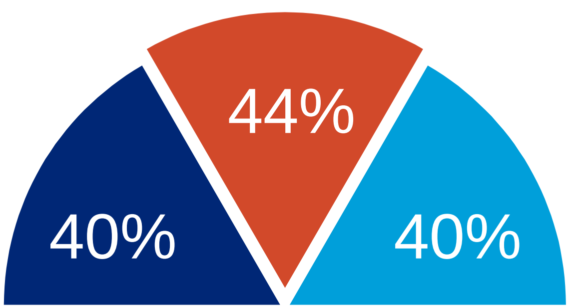
Enrolled in one of five loyalty rewards programs

Writing Positive Reviews



Likely to write positive review About a brand they are loyal to

Loyalty Program Use



Make purchases that earn rewards/benefits several times a week

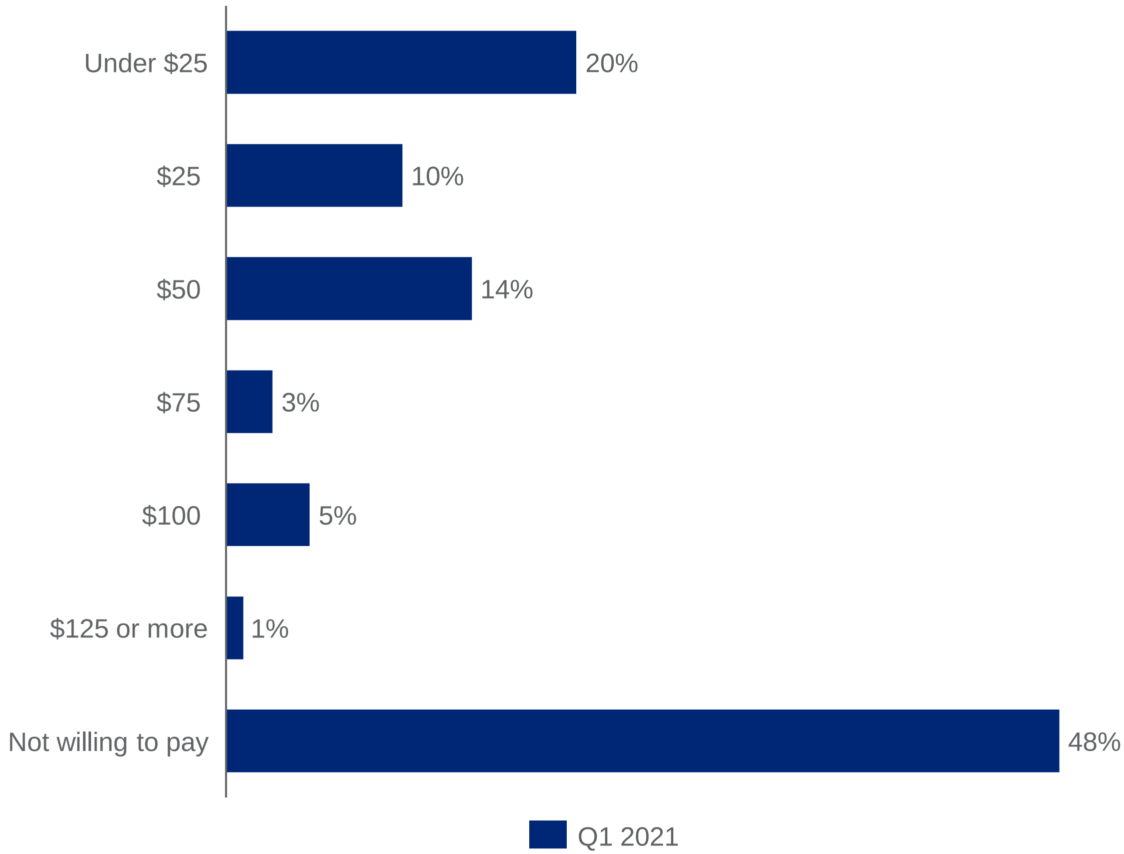
- Millennials (born 1982-1999)
- Generation X (born 1965-1981)
- Baby Boomers (born 1946-1964)

Source: The truth about customer loyalty, KPMG international, 2019
Source: https://home.kpmg/xx/en/home/insights/2019/11/customer-loyalty-survey.html

More Than Four in 10 Consumers Are Willing to Pay for Annual Membership of $50 or Less

Willing to Pay for Annual Membership

Total Population

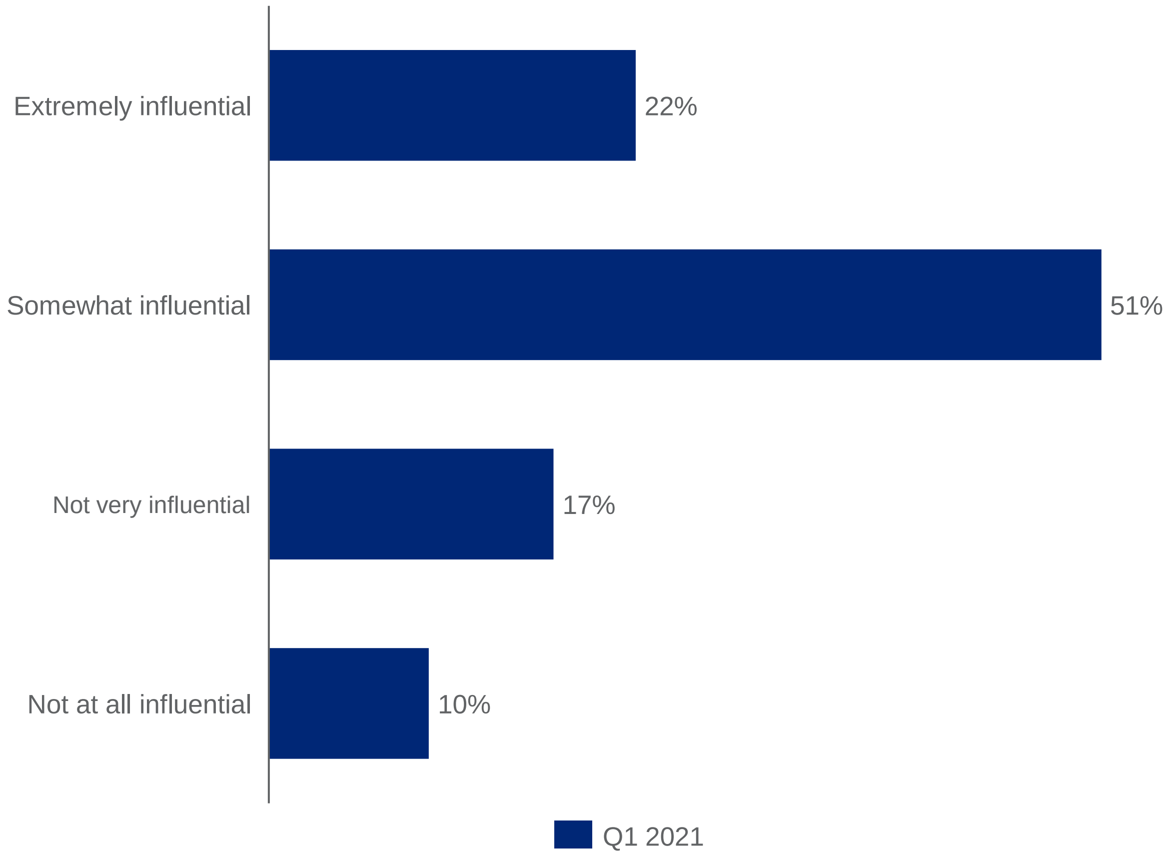


Base=Those Respondents Who Consider/ Not Interested In Having Shopper Loyalty Card/Rewards Membership For Online With Annual Fee

Source: IRI Consumer Connect™, Q1 2021

Shopper Loyalty Programs Influence Choice of Stores to Shop

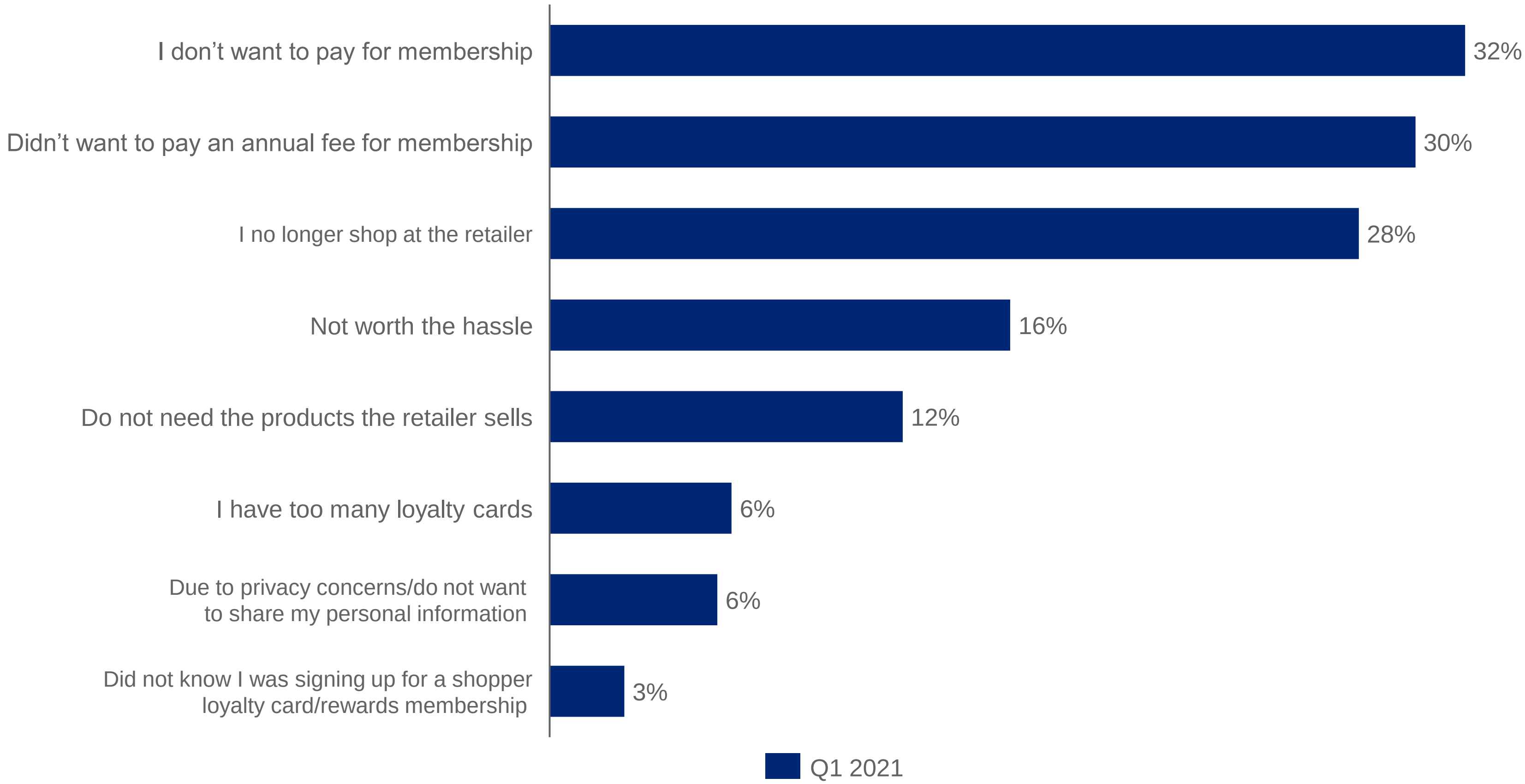
Influence of Shopper Loyalty Card/Rewards Membership Program on Shopping at Store
Total Population



Agree With Statement
Source: IRI Consumer Connect™, Q1 2021

About a Third of Consumers Cite Membership Fees as the Main Reason for Canceling a Loyalty Program

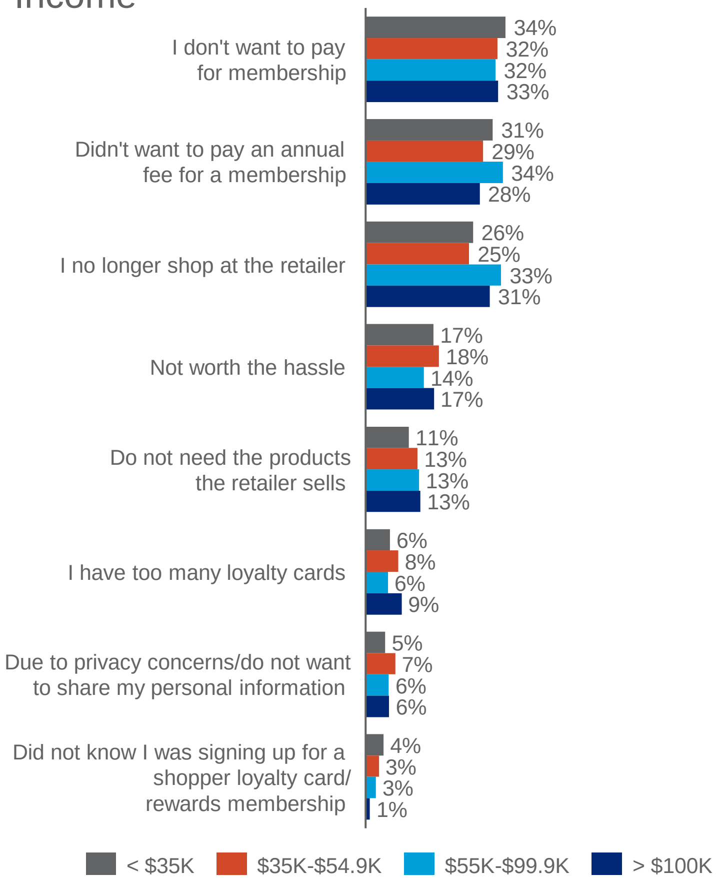
Reasons for Canceling Shopper Loyalty Card/Rewards Membership
Total Population



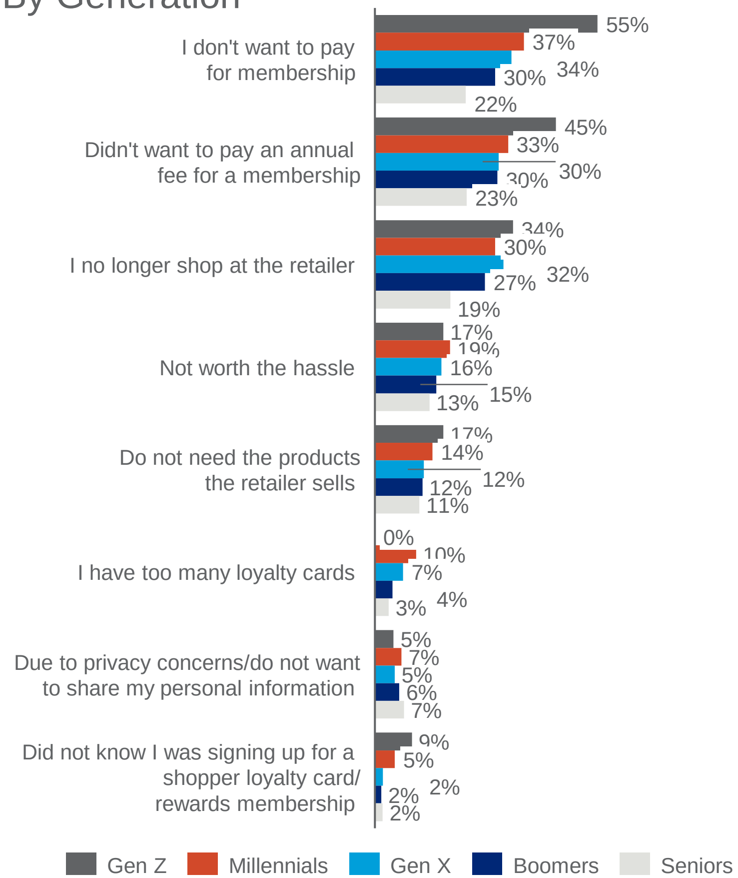
Agree With Statement
Source: IRI Consumer Connect™, Q1 2021

Across Generations, Gen Z Cites the Most Reasons for Canceling a Loyalty Membership

Reasons for Canceling Shopper Loyalty Card/Rewards Membership
By Income



Reasons for Canceling Shopper Loyalty Card/Rewards Membership
By Generation



Agree With Statement
Source: IRI Consumer Connect™, Q1 2021

Consumers Are Interested in Personalizing Every Element of Their Loyalty Experience, From Earning to Redeeming

Survey Question

Indicate if You Agree With the Following Statements About Loyalty Programs

Source: https://www.merkleinc.com/thought-leadership/white-papers/2020-loyalty-barometer-report

Retailers Are Moving Toward Integrated and Unified Rewards Programs to Provide Personalized Offers and Experiences

Retailers Expand From Point-Based Loyalty Programs

	Phase 01	Phase 02	Phase 03	Phase 04	Phase 05
About	**Point-based loyalty reward cards** with point accumulation on every purchase	**Advanced loyalty reward cards,** offering vouchers/coupons in addition to redeemable points	**Multi-brand, tier-based loyalty reward cards** with an option to use across multiple retail brands	**Privilege loyalty program** with personalized and customized offers	**Umbrella loyalty program** with enhanced convenience **— everything under one ecosystem —** along with rewards
Benefits for retailers	**Access to purchase-related data**	Enables cross-selling, product bundling — using insights derived from transactional data	Enhanced customer engagement — one card for a group of retailers	Increased engagement — offers ecosystem of value, service and content; additional income as subscription fees	Ability to offer integrated experiences between online and offline channels; tracks the entire consumer behavior inside the ecosystem
Challenges for retailers/ customers	**Low customer participation/retention** — unused points act as liability for the retailers	Unable to meet growing customer demand of those who seek more value than just reward points or vouchers	Expensive scheme for retailers with little customer insight around each individual brand	No tier-based rewards; no single interface to access grocery shopping, video or music	Available in China and U.S., but other countries may rely on outside delivery, with no home/overnight delivery
Examples*	**MasterCard Rewards**	**DSW VIP program**	**Lancôme tiered loyalty program**	**Run Everything Labs Rewards**	**Amazon Prime**

**Note Examples based on above program definitions*

Source: https://home.kpmg/xx/en/home/insights/2019/11/customer-loyalty-survey.html

To Succeed, a Loyalty Ecosystem Should Be Centered Around Seven Design Principles

1. **Shared Consumer in Mind**
   The program must be highly personalized to the individual consumer, leveraging the full stack of consumer data across brands to offer personalized messages, offers and experiences. Brands should mutually understand the value of the consumer.

2. **Brand Synergy**
   The program must be structured to elevate brand equity. Every brand must have an important role in the given ecosystem and provide value to that ecosystem through its products and/or services.

3. **Diversity of Products and Services**
   The program must provide consumers with value through tangible goods, services or experiences in order to reinforce the program's underlying appeal. Brands should develop common features and benefits together.

4. **Seamless Consumer Experience**
   Sign-ups, use and redemption must be intuitive and responsive, keeping the program simple for consumers.

5. **All-In Brand Commitment**
   Companies must be willing to commit to the partnership, allocating adequate marketing spend and having clear agreements about sharing consumer data in a way that adheres to all relevant regulations.

6. **Alignment on Governance Process**
   Brands should enter the partnership with aligned strategies and goals, defined roles and responsibilities, and a process for managing risk effectively.

7. **Data and Tech Focused on Connectivity**
   Brands will need to ensure, within the confines of the shifting regulatory landscape, that their data can be exported or used as needed — for example, through the use of application programming interfaces (APIs). Brands within the ecosystem need to commit to standards and processes for tracking key performance indicators, adhering to regulations, and establishing protocols for connecting technologies and sharing data.

Source: https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/preparing-for-loyaltys-next-frontier-ecosystems

About the Consumer Connect Index

The Consumer Connect Index (CCI) is intended to monitor consumers' financial health and their purchase behavior in terms of brand loyalty, attitudes toward organic/natural food and beverages, perception of national vs. store brands, and frequency of using retailer and manufacturer coupons.

CCI uses the data collected through the Consumer Connect Survey every quarter, which is benchmarked to Q1 2020 (indexed at 100).

Higher CCI index means that consumers have better financial health, are more loyal to certain brands in each category, give higher importance to organic/natural food and beverages, have better perception toward national brands, and use retailer and manufacturer coupons less frequently.

Methodology

Sample and Assumptions

The Consumer Connect Survey is fielded to a nationally representative Consumer Network sample of over 2,000 respondents every quarter. Sample demos are comparable over time and changes in the state of the economy and the CPG industry are reflected in each quarter.

Measures

CCI is measured based on responses to five questions:

1. My household's financial health is good (Agreement Scale)
2. Store brands are a better value than national brands (Agreement Scale)
3. Download coupons from a retailer/manufacturer website (Frequency Scale)
4. Good selection of natural/organic food/beverages (Importance Scale)
5. I have a few brand(s) in each category I will stay loyal to (Frequency Scale)

Calculation

Calculate weighted proportion for each question by 3 age groups — (T2B for all questions except B2B for the 3rd question).

→

Get total weighted proportion based on each question

→

CCI = (current quarter's weighted average of all 5 questions divided by the average of Q1 2020)*100

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