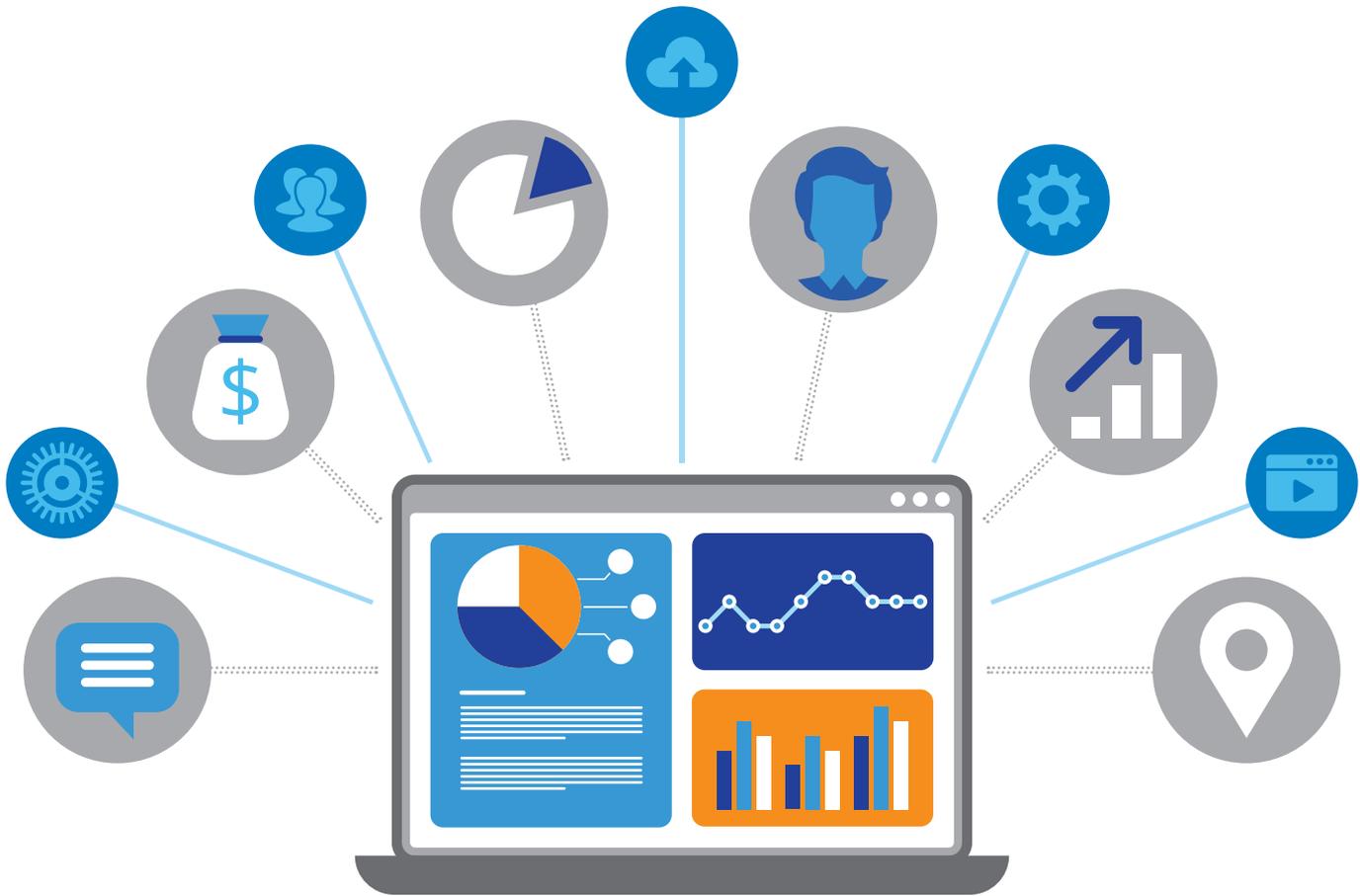


# A New Approach for Customer Relationship Programs

How to create differentiation in the age of the “loyalty-less” consumer.



Subscription retail is a trending business model, exploding with growth amidst significant corporate investment and a wave of venture capital funding. For retailers and consumer brands looking to capitalize, there are multiple questions to address before running ahead with a program – especially when it comes to striking the sweet spot of appealing to consumers who value experiential rewards. We'll explore this concept in more detail and provide you with a set of recommendations on the optimal way forward in selecting the right model.

## Loyalty is Dead. Born is the Subscription Concept

From gaining prominence from the late 1990s, loyalty programs have proven successful in retaining customers by incentivizing them through rewards, exclusive discounts and special gifts. But in the digital era, the new generation of shoppers have developed an entirely new perception about what constitutes brand loyalty. It is no longer driven by discounts and low-value offers, but is based on new, exceptional experiences and differentiated services.

Today's savvy digital-age consumer is ready more than ever to pay a fee to access and experience what is premium, individual and curated.

## A New Age Consumer has Changed the Game

With changing customer preferences, traditional loyalty programs are losing their relevance. According to Kantar Retail, 71% of consumers now claim that [loyalty incentive programs don't make them loyal](#) at all. Add to this, memberships growth in

loyalty programs decelerated to 15% in 2017 as compared to 26% in 2015. Finally, according to the Norwegian Business School, 58% of customers who signed up to loyalty schemes do not use their accounts at all.

As consumer interest in loyalty programs continues to wane, retailers face mounting losses in these programs each year while becoming a greater burden on the CIO to manage them efficiently. Thus, enter a new revenue model in the form of subscriptions. This burgeoning concept has aroused significant interest from retailers and consumer brands across categories like beauty products, apparel, meal kits, razors, pet foods, wine and vitamins.

So can subscriptions be the next frontier to be tapped into for new and high-value revenue streams?

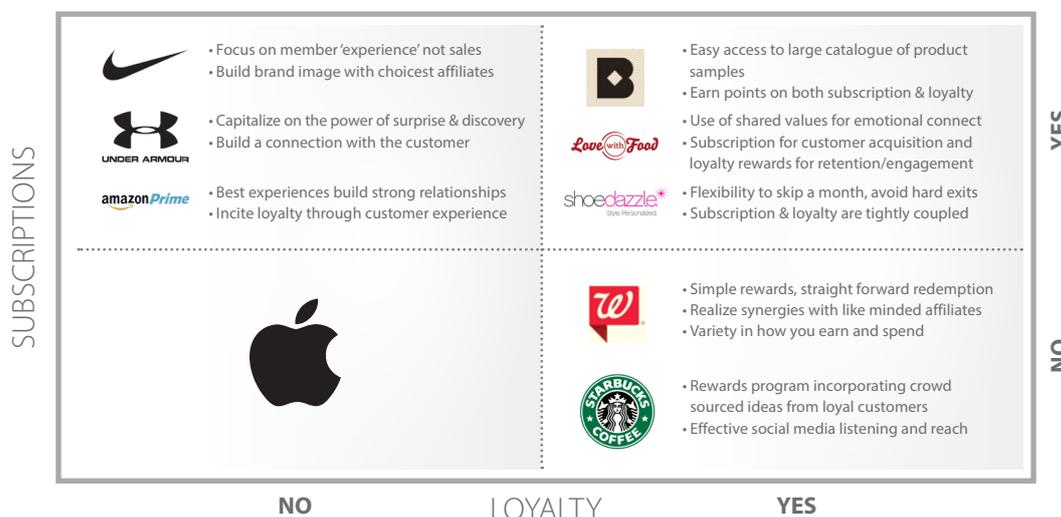
## The Rise of the Subscription Model

With a modest beginning starting with newspapers and magazines to telecom services and exclusive news, [the subscription model has seen an explosion](#). Aggregate growth is close to 200% a year over past 5 years, while over 2,000 subscription businesses are capitalizing on a diverse range of categories. Finally, there is venture capital funding activity in excess of \$1 billion in the last 2 years alone.

## Various Models Evolving in the Market

In light of this opportunity and the potential it holds for sustained growth, we analyzed the various models available in the market and recognized that key players have tried to be creative in bringing about a new dimension to ensure uniqueness and success in their offering.

### How Leading Brands Leverage Subscriptions or Loyalty Programs



## Loyalty Program Analysis



- Difficult to create excitement
- Making it stand out from the competition
- No guaranteed future profitability
- Balancing the bottom line
- Difficult to attribute loyalty

- Better customer retention
- Higher cart value – cross/upsell
- Effective customer profiling
- Creative brand differentiation
- Increases net promoter score



## Subscription Program Analysis



- Subscription fatigue
- Susceptibility to failure
- Longer conversion time
- Low cross sell/up sell
- High churn rate

- Better margins
- Predictability – stock/revenue
- Low retention cost
- Channel to build relationship
- Quicker feedback



## Choosing the Right Model

It is first important to understand that retailers employ different variants of loyalty programs (*Points, Tiers and Coalition*) and subscription programs (*Replenishment, Curation and Access*). Each program is designed differently to achieve its objectives.

With a loyalty program, points-based programs are most suited to high-frequency interactions while a tier-based program helps in customer profiling and focuses on experiential rewards. Similarly, in the case of subscriptions, a replenishment-based program is suited for purchasing commodities while a curation or access-based program is most suited for providing highly-personalized experiences.

As a standalone offering, both loyalty and subscriptions programs do achieve their stated business objectives to varying

degrees. However, each program has its own drawbacks as well (see above chart). As a result, a hybrid offering where the two programs can be blended to benefit from synergies of both could be a compelling business case.

## A Hybrid Model to Create Impact and Differentiation

A hybrid approach has the opportunity to create a powerful revenue model that would be engaging and create a sense of belonging for customers, while delivering a superior end-end experience. In short, it's the best of both worlds and an example of the whole being greater than the sum of the parts.

### Key Constructs of a Hybrid Program

- SURPRISE** 1 Provide highly personalized experiences through shared and learned consumer preferences.
- PRIVILEGE** 2 Make the customer feel exclusive by providing services/products on demand.
- REWARD** 3 Incite customer loyalty with transactional rewards and discounts.
- EXPERIENCE** 4 Offer member exclusive products and invites for special events.
- VALUE** 5 Ensure a good value proposition backed by a consistent brand promise.
- COMMUNICATIONS** 6 Clear and ongoing broadcast of value proposition and benefits to potential customers.
- SCALE** 7 Partner with affiliates to expand reward options. Grow and evolve subscriptions bouquet and allow customers to mix and match.
- INSIGHTS** 8 Derive insights based on NPS/customer feedback to ensure program relevance and profitability.

## Building Blocks of a Hybrid Program

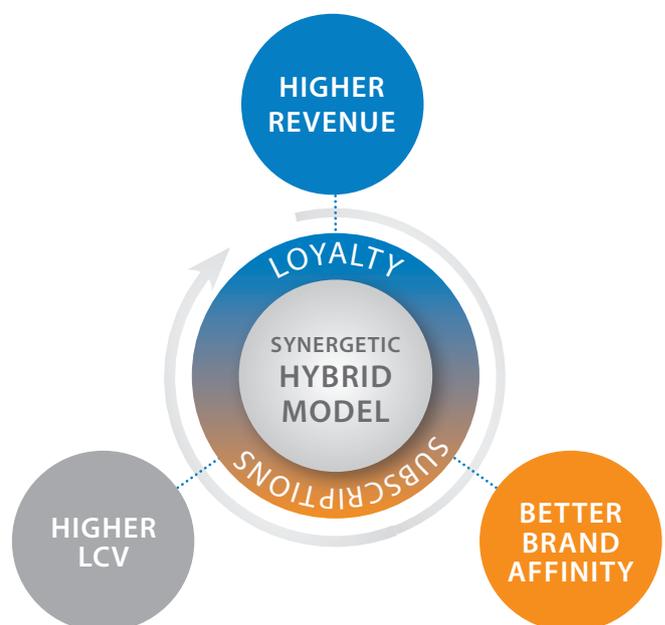
There are some key considerations that can ensure a hybrid program stays relevant and provides a strong customer experience. These include:

- **Mastering the Single Customer View** – The user profile should capture all 'stated' preferences to start with and should be continuously enriched with 'learned' preferences as the customer transacts within the subscription ecosystem.
- **Billing Accuracy and Intuitive Invoicing** – A robust billing system which can handle the complexities of prorated and usage bills is a necessity. Billing needs to be simple, accurate and properly reflect the items finally purchased by the customer.
- **Fast and Flexible Payment System** – The type and frequency of payments are multi-faceted in a subscription. This is a great opportunity to automate collections to ensure minimal write-off. The payment options and gateways should have variety, speed and flexibility to cater to the entire spectrum of current and potential customers.
- **Finance and Accounting Processes** – A program involves thousands of transactions which can scale exponentially with new customers. It is necessary to build a strong interface with enterprise level revenue, risk, tax and fraud management systems to ensure a streamlined accounting and compliance process.
- **Scalable Subscription Modeling** – Customer needs and preferences will quickly evolve and change over time. The entire subscription ecosystem needs to be flexible and agile enough to handle changes in pricing, T&Cs and new product introductions.
- **Leveraging Big Data** – Be it automated analysis of subscriber preferences and buying patterns or social media listening, subscription offerings need to leverage the power of big data to ensure the model is continuously improved with insights. This will help fine-tune the offering and help the program stay relevant.
- **Seamless Omni-Channel Experience** – It is imperative that the customer experience be designed properly to ensure that the offering blends optimally with other channel offerings (i.e., website, apps, customer service and in-store).

## Benefits of a Synergetic Hybrid Model

A hybrid model with right focus on customer experience could help a brand ride this new wave and create a powerful and sustainable revenue stream. The benefits include:

- **Higher Revenue Potential** – by tapping a new business opportunity, increasing customer base by acquiring new customers and expanding share of the wallet.
- **Better Brand Affinity** – by deepening customer relationships, and creating stronger brand connections, leading to increased stickiness and lower churn.
- **Higher Lifetime Customer Value** – by tailoring customer offerings off of deep insights on preferences gained from rich interest and transaction data.



## Creating Your Roadmap

Our team of supply chain and retail/consumer goods experts have worked with a number of top brands to identify the biggest levers for success, and to map out programs that drive customer value and financial impact. We would be delighted to share our experiences and learnings, and help you plan a path forward with a new hybrid model that is best for your business. Contact our experts to learn more.

## About the Experts

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### **Harish Gudi** – Partner and Head of Global Delivery Organization

Harish has been with Infosys for 20 years in various roles in delivery leadership, sales and business consulting. He joined Infosys Consulting unit 6 years ago and now heads our global delivery organization in India, managing top clients such as Adidas, Reckitt Benckiser, PepsiCo, Citibank and Syngenta. Before joining the firm, he spent several years with a startup analytics company. Harish is a regular contributor to the firm's digital platforms and a recognized expert across our global community.



### **Jerry Kurtz** – Partner and Practice Head, Retail, Consumer Goods & Logistics Practice

Jerry leads our growing retail, consumer goods and logistics practice in North America. Jerry is a consulting industry veteran, with more than 25 years in total across both IBM and PricewaterhouseCoopers – the latter of which he became one of the firm's youngest partners at age 32. His areas of expertise include advanced analytics, artificial intelligence, IoT, enterprise transformation (including ERP), and shared/business services.



### **Sathyanarayanan Varadan** – Sr. Principal, Retail, Consumer Goods & Logistics Practice

Sathya is a senior principal in our Retail, CPG and Logistics practice with more than 15 years of advisory experience. He has worked across a multitude of big brand clients to develop omni-channel strategies and to manage large transformation programs. Sathya has worked across a diverse set of roles, including functional lead, product manager, business architect and program management.



### **Karthik Ravichandran** – Consultant, Retail, Consumer Goods & Logistics Practice

Karthik has been a consultant for the past 12 years and has played a vital role in many critical engagements within our industry practice. He has specialized experience in transportation management systems, train operations, route optimization, asset management and utilization, and digital commerce.



### **Anubhav Billore** – Consultant, Retail, Consumer Goods & Logistics Practice

Anubhav has 10 years of industry experience and focuses on the logistics areas for Infosys Consulting. He has worked for multiple clients on process and performance improvement projects across the supply chain space. His areas of expertise include business process re-engineering, process automation, customer experience and change management.

## About Infosys Consulting

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