

The loyalty shift decoded

Key insights for winning shopper devotion in an uncertain economy





The loyalty shift decoded

It's unquestionable that brand loyalty has been disrupted. Loyalty attitudes and behaviors are shifting. To say the economy is uncertain is an understatement: Unemployment is at its lowest level in 50 years; wages are rising, but inflation is eating into gains, and many shoppers are behaving as if they're in a recession, even though economists say the overall economy is strong.

The average grocery shopper is facing significant budget constraints. After experiencing out-of-stocks and empty shelves in past years, shoppers are also more willing to try new brands. Unsurprisingly, shopper perceptions of brand loyalty have changed.

Shopper "loyalty" does not guarantee brand purchases, and there is no consensus on its definition. A recent study by 84.51° shows that more than 30% of respondents define loyalty based on their purchase behavior, while 24% define it based on consideration and 43% perceive it to be based on preference.

For example, brand loyalty does not equal exclusivity to most shoppers — only 5% of respondents defined loyalty to a particular grocery and household use item as buying "that brand and nothing else." But more than one out of four (26%) said they have a "preferred" brand but are willing to try something else. And while shoppers are motivated by price, it isn't the only thing that would boost their loyalty — trust and value also matter.

With disruption comes innovation and opportunity. It's against this backdrop that consumer packaged goods (CPG) companies have a prime chance to reimagine their approach to loyalty. 84.51°'s latest research on shoppers' brand loyalty attitudes and behavior has uncovered key opportunities for CPG brands to differentiate themselves from competitors and drive brand loyalty among new and existing shoppers.



HERE WE'LL PROVIDE INSIGHTS INTO:

- What does brand loyalty mean to shoppers?
- How has brand loyalty to categories shopped in the past year changed?
- In what categories are respondents most likely to have a preferred brand?
- What are the top drivers for increasing brand loyalty?

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KEY TAKEAWAYS

- The definition of loyalty in most shoppers' minds has shifted away from exclusivity. This presents both a challenge and opportunity for brands to strengthen their relationships with shoppers.
- Brand trust and value are paramount. If trust in a brand is high, the perceived brand value increases — and the opposite is true.
- Brand loyalty is strong for certain grocery and household items and rising in other categories.
- Across the 19 categories analyzed, a higher percentage of shoppers say loyalty is increasing versus decreasing.
- The top things shoppers say brands and retailers can do to increase loyalty are centered around value, trust, selection and relevant rewards.

Defining loyalty

Hint: it's not about exclusivity for most shoppers.

Studies on the value of brand loyalty show that it can strengthen shopper relationships and lead to increased profitability, higher lifetime value and lower acquisition costs. But don't assume brand-loyal shoppers are immune to purchasing competing brands.

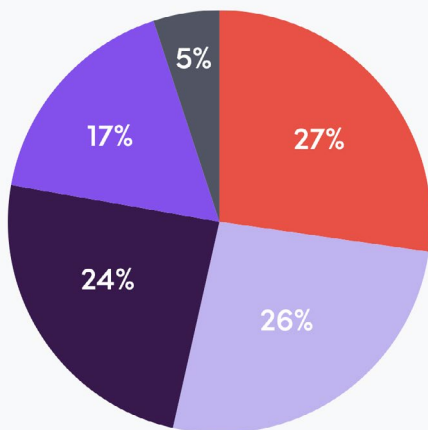
To a majority of shoppers, brand loyalty means buying a brand "most often" while being open to purchasing other brands. The same can be said for retailer loyalty. Only 6% of shoppers defined retailer loyalty as shopping at one retailer for all their needs, while 29% described it as a retailer where they shop "most often." Brands and retailers, in other words, can't be complacent; they need to continuously earn shopper dedication.



Brand loyalty

What does it mean to be loyal to a particular grocery and household item use brand?

- It is the brand I buy most often
- I have a preferred brand but I'm willing to try other brands
- It is one of the top (but not the only) brands I consider
- It is the brand I want to buy the most
- I only ever buy that brand and nothing else



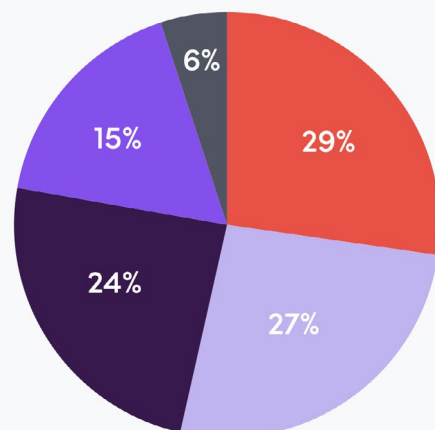
Source: 84.51° Real time Insights



Retailer loyalty

What does it mean to be loyal to a particular grocery and household item use retailer?

- It is the retailer I shop most often
- I have a preferred retailer but am open to shopping other retailers
- It is one of the top (but not the only) retailers I consider
- It is the retailer I want to buy the most
- I shop at one retailer for all my needs



Source: 84.51° Real time Insights



*Source: 84.51° Real-Time Insights Study of 400 behaviorally-validated Kroger shoppers, February 2023

STAND OUT IN A CROWDED LOYALTY LANDSCAPE

When a majority of shoppers define brand loyalty as purchasing more than one brand, it is imperative that brands differentiate themselves in a highly competitive space.

RECOMMENDATIONS FOR CONNECTING WITH SHOPPERS:

1. Think personalization

Personalization drives loyalty. Fifty-nine percent (59%) of shoppers are likely to purchase a certain brand or shop at a certain retailer if they receive personalized content for that brand or retailer.*

2. Reach shoppers at key moments

Engage shoppers as they fill their cart online or in-store with personalized messaging and coupons.

3. Give shoppers more of what they want

Identify the elements of a product that shoppers value most and remind lapsed shoppers of those features as well as new features that may interest them.

4. Find common threads between shoppers

Thirty-two percent (32%) of respondents claim to be brand exclusive, meaning they only ever buy that brand and nothing else, or it is the brand they buy most often. These shoppers also tend to be retailer exclusive (45%), or meaning they shop one retailer for all of their needs, or they shop at one retailer most often. Find common shopping behaviors and preferences between brand and retailer exclusive shoppers to uncover opportunities to better meet their needs.

*Source: 84.51° Real-Time Insights Study of 400 behaviorally-validated Kroger shoppers, February 2023



The power of preferred brands

Brand loyalty remains strong for certain grocery and household item categories

Brand loyalty varies across categories. The categories with the highest loyalty (greater than 40%) are laundry, soft drinks, coffee and bath tissue. The categories with the lowest brand loyalty (less than 20%) are eggs and refrigerated juice.

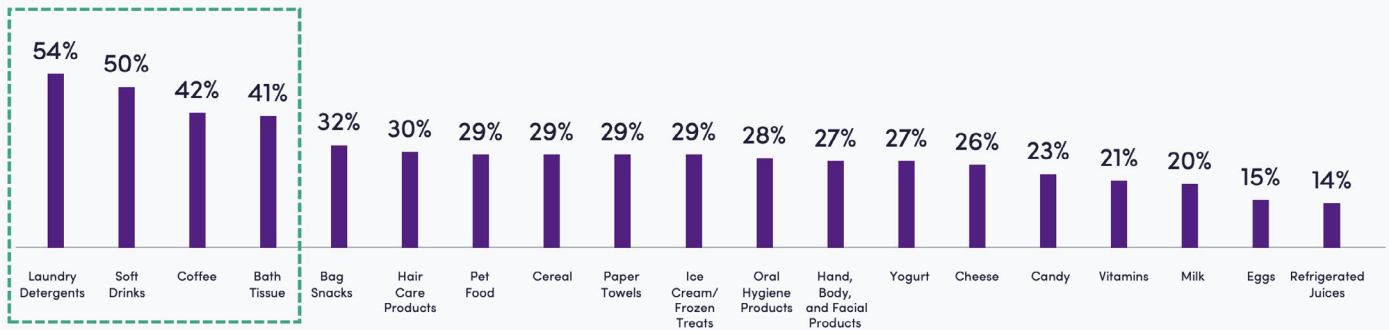
LAUNDRY DETERGENT, SOFT DRINKS AND BATH TISSUE DRAW SOME OF THE STRONGEST BRAND PREFERENCES

Brands should evaluate their share of requirements* to determine the headroom that exists to drive loyalty within their brand.

*Share of requirements: A given brand's share of purchases in its category, measured among customers who have already purchased that brand.

Categories with a strong brand preference

% Selected



CQ9: In which of the following categories are you most likely to have a strong brand preference for? (n=400)

84.51°

DEEPER DIVE:

52-68% of shoppers are more loyal to high-end detergent brands and "natural" detergents

Shoppers who purchase lower-cost detergents are less brand-loyal than shoppers who purchase high-end brands

The percent of exclusive households in laundry detergent has (slightly) increased this year compared to last year.

*Source: 84.51° Stratum, 52 weeks ending 3/11/2023

INSPIRE CONTINUED LOYALTY

Even brands that enjoy a high level of loyalty need to give shoppers a reason to remain faithful. Acknowledge and thank shoppers for their loyalty in ways that are meaningful to them.

- Consider investing in loyalty programs that provide value to shoppers with relevant brand offerings and savings on their preferred brands.
- Understand what is important to high-value shoppers and prioritize those areas for innovation to improve the shopper experience and strengthen loyalty.



There are also opportunities to inspire greater loyalty in less brand-loyal categories:

- Utilize always-on communication highlighting relevant benefits and value to shoppers to encourage more loyalty.
- Uncover unmet shopper needs for innovation. Determine whether current products are meeting their needs with in-depth shopper research.



BRAND LOYALTY IS RAPIDLY INCREASING FOR MILK, YOGURT, JUICE AND MORE

Shoppers said that they've grown more loyal to preferred brands in certain categories such as milk and juice in the past year. Milk (27%), eggs (26%), refrigerated juices (26%) and yogurt (26%) saw some of the greatest increases in brand loyalty.

SHOPPERS ARE INCREASINGLY LOYAL TO PREFERRED BRANDS IN MILK, JUICES, YOGURT AND EGGS

DIVING INTO BEVERAGES



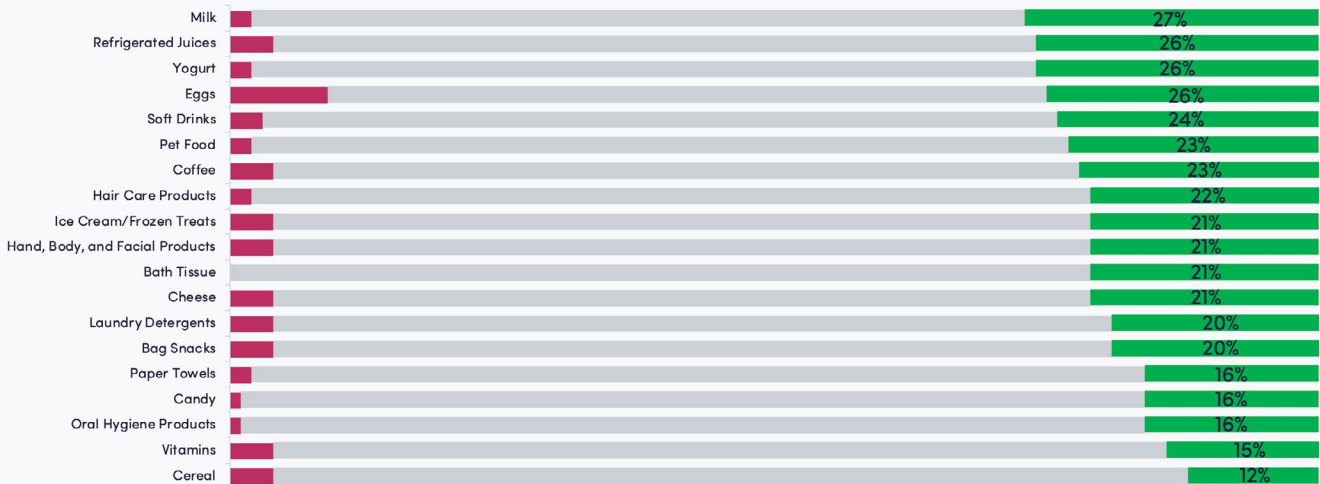
Specifically, shoppers are slightly more exclusive with regular milk than refrigerated juice/ beverages, **but most loyal to soft drinks.**

Source: 84.51° Stratum, 52 Weeks Ending 3/11/2023

Brand loyalty changes in past year

% Selected

● I'm LESS LOYAL to my preferred brand in this category
 ● My loyalty to my preferred brand in this category HAS NOT CHANGED
 ● I am MORE LOYAL to my preferred brand in this category



CQ10: And how has your brand loyalty for your preferred brand in that/those category(ies) changed in the past year, if at all? (n=215)



RECOMMENDATION

To better understand the surge in brand loyalty, brands should drill down into their performance on key drivers of brand choice and consider monitoring via quarterly pulses to ensure they are delivering value and increasing engagement.

Trust and value

Trust and brand value go hand in hand for driving loyalty

VALUE AND TRUST ARE VITAL DIFFERENTIATORS

Most important in choosing brands

% Rank 1 and 2



CQ8: Which of the following are MOST IMPORTANT in informing your decision on what GROCERY AND HOUSEHOLD USE ITEM BRANDS to buy? (n= 400)



Shoppers across the economic spectrum are looking for opportunities to stretch their budgets. Pinched by high prices, getting a “good value” for their money is important when it comes to selecting a brand over competitors, according to 62% of shoppers. The second most important quality is trust; 34% said they choose brands that they trust.

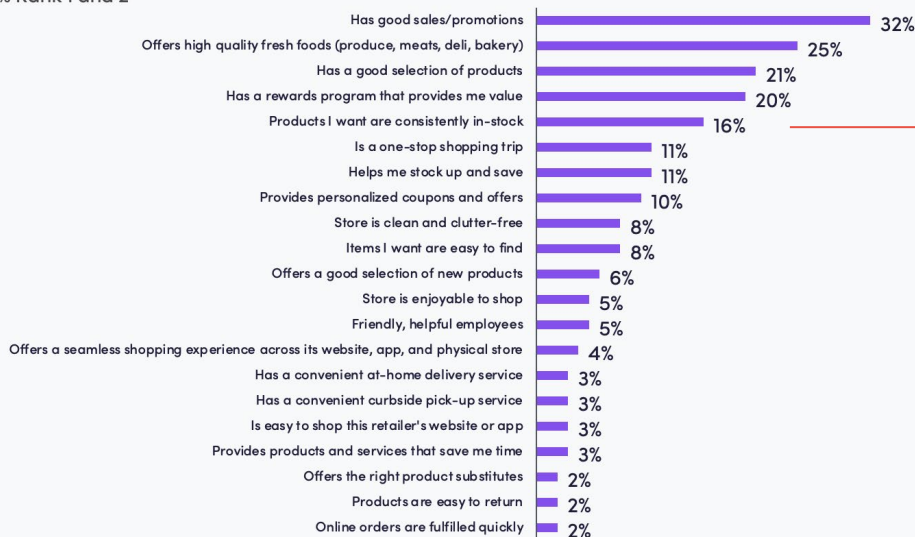
RECOMMENDATION

Utilize product performance claims testing or product usage testing to ensure product performance is meeting shopper expectations.

SALES & QUALITY SELECTIONS ARE KEY DETERMINANTS FOR CHOOSING A STORE

Most important in informing where to shop

% Rank 1 and 2



CQ5: Which of the following are MOST IMPORTANT in informing your decision on where to shop for GROCERY AND HOUSEHOLD USE ITEM BRANDS? (n= 400)



The top five factors that shoppers say determine where they shop are:

- Sales and promotions
- High quality fresh foods
- Good selection
- Rewards program
- My products are in stock

KEY LOYALTY DRIVERS

At first glance, loyalty appears to be a race to the best value as shoppers seek to get the most out of their money. But trust and brand value are intertwined; if a brand has high trust, the brand value rises. The opposite is also true – brands with zero trust have zero value to shoppers.

BRANDS BUILD AND FORTIFY TRUST IN THEIR BRAND VALUE BY:

Helping shoppers be the hero

Shoppers want brands that not only deliver the promised functions but also make them feel good about their purchase. Analyze shopper motivations, attitudes and preferences to identify the key product elements that matter to shoppers.

Being a credible informational source

Help shoppers make more educated decisions about the products they use by providing more information about your brands. With the importance of health, wellness and sustainability, brands have an opportunity to share more about the corporate priorities, initiatives, sourcing and innovation are helping to create products that will help shoppers lead better lives.



Reducing shopper effort

Although shoppers want choices, offering a multitude of varieties, sizes, selections, flavors and alternatives can also lead to increased complexity and uncertainty. People want options but they don't want to struggle to make a choice. Take the complexity out of choosing such as with personalized recommendations.

Being relatable

Shoppers are looking for authenticity in brands. Brainstorm ways to be more transparent about the brand values, affinities and interests that are important to your shoppers.

Shoppers who place high importance on product quality are more likely to look to brands that help them reach their personal goals.

Shoppers prioritize several factors when choosing what to buy, but the importance of those factors can vary significantly between age groups. Offering free items is a top loyalty driver for shoppers ages 35–44, but brands must deliver on their promise to be in the consideration set for 55–64-year-olds. And shoppers ages 65 and older are most concerned that a brand is a good value for the money. These shifting priorities offer brands unique opportunities to reach these different groups in more meaningful ways.

A new loyalty era

It's time to double down on shopper trust and loyalty

Brand and retailer loyalty have been roiled in an inflationary environment. Even brand loyal shoppers are not immune to price hikes. Shoppers are looking for brands and retailers that they can trust to help them stretch their budget with quality products. Even after this volatile period passes, there is no reason to expect shoppers to lower their expectations in exchange for their allegiance.

We're in a new loyalty era.

As shopper behavior and attitudes continue to shift, it's imperative that brands and retailers adapt to those changes. There are a number of actions brand and retailers can take to meet shoppers' shifting wants and preferences. The companies that seize opportunities to help consumers shop the way they want to shop, get the products they want at the right price, earn the devotion of both new and existing shoppers.

- **Identify the best ways to deliver more value to new and existing households and drive incremental growth by integrating historical data with forward looking shopper research.** Find answers to questions such as, which items are best bundled together? What promotions resonate with new households versus existing ones?
- **Find ways to help shoppers shop on a budget by making data-informed pricing decisions.** Price optimization models that incorporate elasticity curves, brand strength, competitive positioning, product substitution, etc., help CPGs set prices based on a number of product-related factors to serve price-sensitive shoppers and maintain healthy margins.
- **Reward shoppers and drive incrementality to even highly loyal brands.** Increase the reach, relevancy, and effectiveness of valuable offers and coupons with loyalty and media tools that prioritize personalization and measurability.
- **Recognize that even loyal shoppers could easily shop your competitors.** Gather insights based on shopper's purchase habits and motivations, as well as your competitors, to understand new patterns. Use those insights to prioritize innovation and refine messaging to better resonate with shoppers.

Earn the loyalty of both new and current shoppers with 84.51°

YOUR CHALLENGES:

OUR SOLUTIONS:

1. Build and retain loyalty among your best shoppers with rewards and relevant content.
2. Drive awareness and trial for brand innovation.

84.51° Loyalty Marketing

1. Our Best Customer Communication events such as Loyal Customer Mailers, MyMagazines and MyMagazine Extras provide relevant, personalized offers that can be used in-store and online to drive engagement, retention and incrementality in addition to avoiding trade-downs. Reach high value omnichannel customers with new Boost programs.

Top attributes of Loyal Customer Mailer, MyMagazine and other Best Customer Communications, according to Kroger shoppers:
"Saves me money, saves me time, brings me value, relevant to me"

2. New at Kroger is a marketing vehicle that uses sales and shopper metrics to acquire new households who have the propensity to buy your new products at Kroger.

3. Stay top of mind with brand buyers in a highly competitive space where competitors are a click away or sharing shelf space.
4. Communicate value in a crowded media landscape.

PRECISION MARKETING Kroger POWERED BY 84.51°

3. Kroger Precision Marketing is designed to make advertising more effective by closing the loop between media exposure and store sales. Brands have opportunity to apply best-in-class science across a full funnel media portfolio using exclusive Kroger purchase data to deliver personalized and meaningful experiences for your brand across any objectives (Driving awareness, conversion and repeat.)
4. Strategically reach must-win households with 84.51° audiences/segmentations, including purchase-based, and ecommerce habits.

5. Know who is buying your brand, and build strategies to ensure your buyers remain loyal.
6. Know how to attract new customers, what keeps your loyal customers happy and why you are losing some to your competitors.
7. Understand how shoppers are building baskets in an omnichannel world.
8. Optimize product design to prioritize the elements shoppers value most.
9. Mitigate risk from pickup substitutes driving shoppers to competitive brands.

84.51° Insights

5. 84.51° Stratum, our self-serve analytics solution, combines rich customer behavioral insights with retail performance measures. With insights powered by the most robust first-party transaction level data source in grocery retail, measure trial and repeat for your new items, penetration among household segments, and even exclusivity for your brand. Further segment households based on degree of loyalty to your brand, and compare the profile and buying behavior of your most loyal household to the average brand buyer.
6. Our Consumer Research can uncover the "why" behind the "buy," ensuring that you are surveying the right customers based on their actual purchase behavior. Do it yourself with our new 84.51° In-Queries platform or let our experts do it for you with our Real Time Insights solution. You choose the service level. Quality is baked in.
7. Clickstream Insights allow you to analyze the shopper journey across multiple components (Search, Start My Cart, Department Pages), identify engagement and conversion opportunities, and tie those shoppers back to in-store behavior.
8. Measure the value shoppers put on features and simulate real-world decision making with the Feature Optimization Suite.
9. The Pickup Substitution Impact Analysis identifies the top substituted items for your products and how customer behavior changes post-substitution. If substitutions are putting loyalty to your products at risk, this solution can help prioritize areas to focus on in-stocks.

84.51° is a retail data science, insights and media company. As a wholly owned subsidiary of The Kroger Co., we help Kroger, consumer packaged goods companies, agencies, publishers and affiliated partners create more personalized and valuable experiences for shoppers across the path to purchase. Powered by cutting-edge science, we leverage first-party retail data from nearly one of two U.S. households to fuel a more shopper-centric journey utilizing 84.51° Insights, 84.51° Loyalty Marketing and our retail media advertising solution, Kroger Precision Marketing. Find out how 84.51° can help grow your business at loyalty@8451.com.

Methodology and resources

84.51° Loyalty Insights Study February 2023 — Quantitative study using the 84.51° Real-Time Insights solution. Study included 400 behaviorally-validated Kroger shoppers in the latest 12 weeks.

84.51° Stratum — Our platform with first-party transaction data from 60 million households over the past four years. Analysis is based on shopper behavior for the 52-week period ending 3/11/2023.

