

Loyalty in Luxury Retail

STRATEGIC OVERVIEW

This overview at a glance

Who: Luxury retail loyalty professionals
What: Luxury retail loyalty - now and next
Read: 5 minutes

Market dynamics and major trends

This is a sector in transformation, driven by slow post-pandemic recovery in some key markets such as China.

Loss of confidence amongst luxury consumers, the introduction of US tariffs, liquidity pressure in distribution channels, strain in supply chains and escalating prices are creating volatility.

A new generation of luxury consumers is advocating for better price/value harmonisation and a values-driven approach. Some players are being adversely affected by this (e.g. brands within the LVMH and Kering portfolios) but others with ultra-lux positioning like Hermes are enjoying growth.

High net worth individuals (HNWI's) and ultra high net worth individuals (UHNWI's) continue to be driven by 'money can't buy experiences'.

However, some regions continue to grow, with the Gulf Cooperation Council (GCC) currently at +6% vs. global +2%, driven mainly by Dubai and to a lesser extent Saudi Arabia.

Luxury retailers are in need of a different business model which is less transactional and more experiential.



The customer landscape

Connection, product excellence and recognition are key in this sector. Over-communication, lack of personalisation, crowded, standardised retail experiences, low product quality and lack of top-tier status recognition are flaws which cause customer frustration.

In this sector, clienteling to build long term relationships is the golden rule.

According to Bain & Company, increasing customer retention rates by 5% can boost profits by 25% to 95%.¹ Put simply, loyalty efforts pay, when they are well conceived and constructed.



What good looks like

Luxury brands are increasingly embracing VR, AR, web3, blockchain and AI solutions to enrich the omnichannel experience. Martech and AI solutions are advancing luxury retail loyalty in a number of ways, including:

- Optimising data analytics
- Hyper personalisation of content, communication and experiences
- Rationalisation of product portfolios, matching offers to customer interests, purchase habits and history
- 'Heavy lifting' for sales teams - removing repetitive tasks and freeing up personnel to focus on relationship building
- Predictive profiling, experiences curation and product recommendations
- Communication suggestions based on client's history, purchase cycles and store visits
- Implementation of new category of concierges leveraging agentic AI to bring an additional level of services able to perform transactions

AI and cloud technologies will clearly reshape the luxury industries, upgrading customer experiences and improving employee productivity.

Key business drivers

Key drivers in this sector include:

- Client value/revenue creation and maintenance over the long-term
- Fuelling and developing the share of Top/HNWI's clients in the portfolio
- Qualified data consolidation and seamless omnichannel communication

Success in this sector is about exceptional communication, with programmes able to address multiple business goals:

1 Growing and nurturing most valuable (VVIP's/UHNWI's)

2 Increasing retention and purchase rate

3 Cross-selling and upselling

4 First party data acquisition and consolidation

5 Closing the omnichannel gap online/offline

6 Enhancing instore experience vs. transactional environment

7 Balancing human high touch and high tech tools

8 Services vs. price & discounts

Profitability Perspective

In our view, the three pillars below are key to profitability in this sector.

1. Top tier client growth & retention (HNWI's/UHNWI's)

Bain, Cegid and McKinsey all cite varying 'success stats' showing that the top 2-5% of customers can generate up to 30-40% of revenues and that a 5% increase in retention can lead to a minimum +25% boost in profits. Collinson's experience across international loyalty programmes corroborates these findings

2. Experiential and personalised engagement vs. transactional interactions

Targeted loyalty efforts can increase basket size by up to 50% (Cegid, McKinsey). Conversely, human interactions can make or break the brand relationship: 78% of luxury customers will leave a brand after a poor advisor experience (CXG)

3. Data integration across omnichannel ecosystem

Luxury omnichannel clients are x2.5 more valuable than single channel clients (McKinsey) and 91% of luxury clients are more likely to shop again if they are recognised and remembered across channels (Accenture).

The ROI impacts are clear:

- Loyalty initiatives grow share of spend
- Cost Per Acquisition (CPA) decreases when first party data can be leveraged, allowing optimal targeting, re-targeting and engagement
- CRM & loyalty marketing campaigns improve conversions and revenue

Collinson advises extensively on the subject of loyalty profitability and in particular the importance of incrementality, measurement and the creation of programmes as strategic assets. [Read more here.](#)



Measuring success

Setting clear KPIs and measuring commercial and customer success is key, to drive programme improvements, make the case for investment and set the scheme up as a long-term asset, delivering recurring returns.

- A commercial metrics dashboard should cover incremental revenue, customer lifetime value (CLV), retention and churn rates, basket size/frequency, marketing ROI/cost efficiency and redemption cost vs. value delivered
- A customer metrics dashboard will optimally include engagement rate, tier progression, redemption rate, Net Promoter Score (NPS), Customer Effort Score (CES) and Emotional Loyalty with qualitative tools consistently soliciting customer feedback
- Best practice methodology for the measurement of each of these is available on request from Collinson



The digital workforce – transforming loyalty delivery

The loyalty future lies in human-led strategy powered by machine-driven execution.

AI can assist in almost all aspects of a programme, including customer service, personalised communication, trend prediction, customer segmentation, sales associate scripts, generation of bespoke website content based on user characteristics, direct-to-customer recommendations and store footprint optimisation.

Partners driving profitability

Start your journey with Collinson advisory to design optimal programmes, with Salesforce Loyalty - the leading LMS software solution. Augment your platform with other pre-integrated products or connect to third party applications with Salesforce.

Salesforce Solution

Enables loyalty for

Salesforce Data Cloud

Data Unification of Customer, Member data across the Enterprise

Marketing Cloud

Personalised Member Engagement across the lifecycle

Agentforce

Autonomous member engagement for Sales, Service & Marketing

Commerce Cloud

Seamless purchase online with embedded Loyalty Offers and Rewards

Service Cloud

Easily service your loyalty members with queries and issue resolution

Mulesoft

Easily integrate your Loyalty Solution with Upstream and Downstream solutions



Conclusion

AI early adopters will set the standard for upgraded luxury loyalty experiences. Success will lie in achieving the fine balance between 'high touch' and 'high tech' to ensure that the huge advantages of tech are combined with the best of brand narratives and human storytelling.