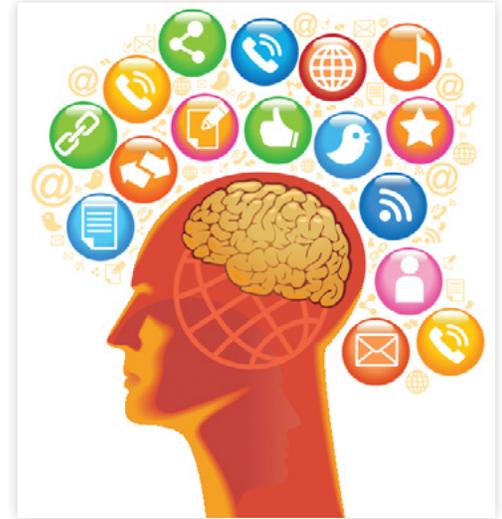


Leading Retailers Use Gamification To Boost Customer Engagement And Loyalty

By Alicia Fiorletta, Associate Editor

Games are powered by six core elements: desire, incentive, challenge, achievement/reward, feedback and mastery. Human nature has wired us with an innate urgency to become the best at a specific activity, and more importantly, be rewarded for our expertise and dedication.

Hence the appeal of gamification: a principle and marketing tactic that is gaining quick momentum in the retail industry. In fact, the gamification market is currently worth approximately \$100 million and is expected to reach nearly \$2.8 billion by 2016, according to data released by M2 Research.



Gamification is the process of utilizing game mechanics and thinking to drive engagement and action. By rewarding users with points and badges in return for frequent visits and purchases, the applications arm retailers with the resources to increase in-store foot traffic, as well as purchase rates.

Initially, the success of check-in applications such as [foursquare](#) and [shopkick](#) predicted the potential and lucrative benefits of this gaming strategy. However, it was social game developer [Zynga](#) that spotlighted the power of gamification when the company filed for an IPO in December 2011. The provider of Facebook-based games — including FarmVille, CityVille and Words With Friends — currently is acquiring more than 200 million active users per month, and is the shining example of social gaming. In fact, Facebook uncovered in its own IPO filing that Zynga was a key asset to the social network's success during 2011, spotlighting the anticipated explosion of Internet gaming.

Facebook noted in its IPO filing: "We currently generate significant revenue as a result of our relationship with Zynga, and, if we are unable to successfully maintain this relationship, our financial results could be harmed." The S-1 form also indicated that Zynga profits account for 12% of the site's total revenue.

With social games moving more to the forefront, retailers are presented with a prime opportunity to tap competitive tools and strategies to improve engagement, drive in-store traffic and boost loyalty initiatives.

Companies across markets are partnering with gamification vendors, including Badgeville, Bunchball and Ifeelgoods to create more memorable brand experiences. Currently, nearly half (47%) of client implementations focus on user engagement, while 22% revolved around brand loyalty and 15% are focused on brand awareness, according to M2 Research.

“Gamification in retail is turning typical retail customer behavior — purchasing, visiting a web site or store, or signing up for a newsletter — into elements of a game where customers receive tangible or symbolic rewards for their participation in this game,” said Scott Silverman, Co-Founder and VP of Marketing for [Ifeelgoods](#), a virtual goods solution provider. “I would expect that at least half of all national retailers will consciously employ gamification strategies in the next two to three years. The majority of retailers we’re talking to today are exploring gamification; it’s also a big topic for senior executives. They are in the process of finding the right application to bring it to their business.”

Gabe Zichermann, author and Summit Chair/CEO of Gamification Co, indicated that more companies, especially retailers, will begin to employ gamified methods as the company-wide benefits become more widely recognized and tangible.

“Continuing on the extraordinary momentum of 2011, the gamification industry will grow substantially this year,” Zichermann told *Retail TouchPoints*. “Some of the major themes we’ll explore at [Gamification Summit 2012](#) in San Francisco [in June 2012] mirror the dynamic shifts happening in this space. These include: the gamification of work, particularly the engagement of frontline employees; the participation of ‘big loyalty’ and how this will affect gamification efforts; and design challenges — from reward models to long-term attention.”

With gamification becoming a more vital component of optimal customer loyalty strategies, many retailers are wondering how they can implement competitions and challenges to improve ROI. Through detailed investigation of target audiences, merchants can determine the optimal channel, as well what rewards/incentives are most effective in driving action and brand allegiance.

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- Gabe Zichermann
Author, Summit Chair/CEO
Gamification Co

Gamification Uncovered

Zichermann characterizes gamification as “the process of using game thinking and game mechanics to engage audiences and solve problems.” A widely recognized advocate of gamification, Zichermann has authored two books on the subject: *Gamification by Design: Implementing Game Mechanics in Web and Mobile Apps* and *Game-Based Marketing: Inspire Customer Loyalty Through Rewards, Challenges and Contests*.



“Put another way, it’s about taking the best ideas from games, loyalty programs and behavioral economics and using them in new, exciting ways,” Zichermann explained.

Industry analysts are keen on the concept of gamification for all types of brands. A recent Forrester Research report, titled “[Gamification Of Marketing Strategies Boosts Consumer Engagement](#),” spotlighted how brands, films and merchants alike can achieve increased loyalty, purchase rates and other results by tapping into the human need for achievement and success. Forrester analyst Elizabeth Shaw described the tactic as “The insertion of game dynamics and mechanics into non-game activities to drive a desired behavior.”

Previously, Forrester defined successful engagement as degrees of the four I’s: involvement, interaction, intimacy and influence. Gamification utilizes these strategies to enhance communication and action, and in turn, create more compelling and memorable experiences for consumers, Shaw reported.

According Shaw, gamification encourages “the four I’s of engagement” in the following ways:

- **Involvement:** Gamification allows brands to increase participation among consumers, leading to increased site returns, new visitors and registrations.
- **Interaction:** Content becomes more meaningful to shoppers when they are connected to brands and retailers. Gamification incentivizes players to interact with products, leading to the increased likelihood of purchase. For example, marketers can leverage an action/reward dynamic for the activities and behaviors they want to increase, the report explained.

- **Intimacy:** A leading challenge for retailers is making their brand more approachable and personable. By tapping gaming strategies, merchants can spark a real-time, intimate connection with consumers through fun and rewards, leading to long-lasting and trusted relationships.
- **Influence:** Incentives such as tokens, badges and offers encourage consumers to share games with their social graph. Encouraging these “social bragging rights” helps boost word-of-mouth and encourages bystanders and peers to join the game.

Through these four areas, retailers can develop a gamification strategy that drives action and encourages brand loyalty.

Combining Social Interactions And Loyalty With Gamification

Loyalty programs and other incentives have been active in the retail marketing mix for generations. However, today’s innovative retailers are combining unique elements of social connectivity with gamification, and in turn, igniting competitive drive among consumers. As a result, the one-to-one, consumer/brand relationship is being remodeled to include multiple participants, with each vying for the same rewards and titles, noted Scott Forshay, Strategist, Mobile and Emerging Technologies for **Acquity Group**.

“The competitive element of gamification normally is constructed in three primary ways,” Forshay explained. “First is the more traditional method where consumers compete almost with themselves to earn more credits, points, discount coupons, or priority access in their brand relationships. Second is competition within the consumer’s social graph, where leader board position, badges and other social currency become status symbols of sorts that drive increased participation in programs. Third is at-large participation, where the game is open to a broad audience of participants in a contest structure where real currency in the form of sweepstakes giveaways typically is at stake.”

However, consumers don’t want to feel like they’re being tricked, or “gamed” by brands, Forshay continued. Retailers must take a more subtle approach to gamification, which first was perfected by travel and hospitality brands via loyalty rewards programs.

“Showing loyalty to a particular airline or hotel brand has been rewarded by priority access, express lanes for check-in, and points that carry redeemable monetary value,” Forshay said. “These types of seasoned game mechanics incent loyalty and participation for mutual value between brand and consumer. They provide engagement, the ability to achieve status, and exclusive rewards for the most loyal participants.”

Determining The Efficacy Of Real And Virtual Rewards

Gamification applications and offerings such as FarmVille and foursquare harness the power of virtual rewards. From points to tokens and badges, consumers actively participate in digital events and challenges to win the status that aligns with these digital prizes. Similar applications, such as shopkick, utilize incentives such as coupons and discounted goods to increase shopper engagement at home and in store.

With the variety of gamification models and solutions currently available, many retailers are challenged to pinpoint the value of these tools and which gaming "style" is right for them. Both virtual and physical rewards can be compelling for consumers, according to Rajat Paharia, CEO of Bunchball, a gamification company that has worked with organizations including USA Networks, Bravo TV and Chiquita. To develop an effective strategy, it is imperative for a merchant to conduct a thorough analysis of its target audience, and how consumers respond to specific incentives.

"Some users will be happy with badges, trophies and other acknowledgements," Paharia told *Retail TouchPoints*. "It certainly works for FarmVille, and it can work for gamification programs. In other circumstances, physical rewards make sense; we've seen our customers be very successful with both tactics. Again, it boils down to the audience, its expectations, and what will motivate consumers to take action."

Furthermore, the success of virtual rewards, such as badges, coins, "mayorships" and points, relies heavily on how advanced a company's social community is. If a retailer has a strong social strategy that operates on high levels of interaction and engagement, consumers will have greater incentive to participate, according to Adena DeMonte, Director of Marketing at Badgeville, a gamification and behavior management company that works with organizations including Samsung, Bluefly.com and Deloitte. The more active a social community is, the more eager and willing customers will be to share their participation levels and gaming successes.

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Bunchball

"Virtual rewards are only as valuable as your site's social context," DeMonte explained. "Rationally, if we are to receive status that gives us no tangible benefits, and no one else sees this status, it is not that valuable. There are cases where the experience will never be social so it is better to reward behavior with tangible rewards."

However, some merchants blur the lines between real and virtual rewards, according to DeMonte. For example, Badgeville customer Samsung ties tangible rewards to social communities to increase engagement. Every month, the company gives away a great electronic device to one member of its community. "In lieu of a completely random raffle, community members are rewarded based on completing certain missions in order to be entered into the drawing," she explained.

Silverman of Ifeelgoods also spotlighted the need to integrate real and virtual rewards for optimal participation and engagement. "a tangible reward can drive higher performance than only a symbolic reward, such as a badge or obtaining a certain level. The symbolic rewards are effective, but can be improved by combining 'real' rewards to drive more behavior."

While the debate over real and virtual rewards continues among executives, other analysts and industry experts indicate that successful game-fueled strategies are determined by how customers value rewards, regardless of physical or digital make-up.

"The real versus virtual rewards argument is a bit deceptive," explained Zichermann. "All rewards are 'real' if a consumer believes they have value and are meaningful. Virtual items, such as digital gifts, have the same emotional properties if consumers perceive them as valuable. It's the creation of that meaning that matters, not the concept of 'bits versus atoms.'"

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Ifeelgoods

Best Buy, Gilt Groupe And HSN Lead The Pack In Gamification

The gamification market is on the upswing. Awareness and proliferation of gaming strategies is expected to continue throughout the coming years, according to industry experts.

Gartner predicts that by 2014, more than 70% of Global 2000 organizations will have at least one “gamified” application. While many consumers are drawn to games due to the promise of rewards and free goods, analysts reveal that gaming strategies can be applied to motivate and change behaviors.



“Gamification aims to inspire deeper, more engaged relationships and to change behavior, but it needs to be implemented thoughtfully,” said Brian Burke, Research VP of Gartner, in a press statement. “Most attempts at gamification currently miss the mark, but successful and sustainable gamification can convert customers into fans, turn work into fun, or make learning a joy. The potential is enormous.”

With gamification gaining more traction in the retail industry, innovators are coming to the forefront. For example, **Best Buy**, **Gilt Groupe** and **HSN** all excel in utilizing game mechanics and concepts, such as rewards, incentives, auctions and challenges, to drive customer engagement and purchases.

Best Buy Boosts In-Store Traffic With shopkick

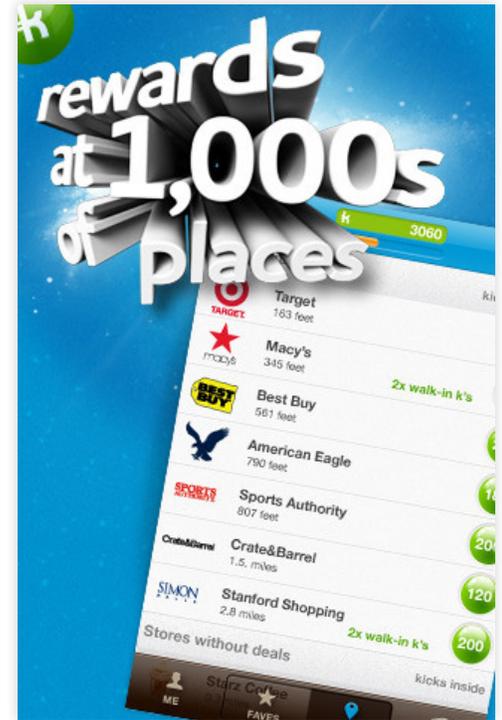
Location-based check-in applications such as foursquare and shopkick allow people to find new hangouts, obtain information on special sales/offers and, most importantly, be rewarded for frequent visits to their favorite locations. Although foursquare provides consumers with badges and “mayorships” as currency to further bragging rights, shopkick provides shoppers with points that can be exchanged for tangible items.

Electronic goods retailer Best Buy partnered with shopkick in an effort to increase foot traffic and purchase rates at its stores, especially among its less loyal consumer base, according to Doug Galen, CRO of shopkick, Inc.

“The good news for retailers like Best Buy is that loyal consumers absolutely are going to use a company-branded mobile application,” Galen told *Retail TouchPoints*. “However, the majority of Best Buy customers are not their most loyal, and these shoppers need a different solution.”

By tapping into shopkick via iPhone or Android, shoppers collect Kick Points, which is the application's currency. By scanning items in Best Buy locations and completing challenges, shoppers can earn Kick Points, which are then redeemable for discounts and free goods. This strategy allows retailers to guide shoppers across the buying journey — from browsing, to consideration, and then purchase, according to Galen.

“Every action is intended to get shoppers closer to buying, and also help retailers get a higher ROI on their marketing spend,” Galen said. “To make the store the star, retailers have to think about the in-store experience, as well as the arc to the ‘couch experience,’ which takes place before the in-store visit. This is when consumers, especially women, do more window-shopping and browsing before determining what they want to do once in the store.”



As shoppers grow more fluent in browsing and comparing prices via smartphone, brick-and-mortar retailers are struggling to keep pace with discount merchants, such as Amazon, that contribute to the rise of “showrooming.” In fact, many shoppers are using in-store aisles as their own personal showrooms to ensure they grab the best price.

However, leading retailers such as Best Buy are combating the rise of “showrooming” by utilizing the optimal mix of personalization, rewards and fun, Galen added. “When you get that mixture just right, the application becomes addicting in a fun way and drives your purchase decisions, which are fueled by rewards,” he said. “Rewards increase loyalty, versus discounting, in which retailers only compete on price. This is where it's vital to get the fun part correct. Once consumers are in the store, it's all business.

Gilt Groupe Taps Exclusivity To Drive Purchase Urgency

eBay is a notable “founding father” of gamification. By leveraging a digital auction format, which is a game inherently, shoppers compete for discounted goods and sought-after collectibles on a restricted deadline, providing the optimal incentive to keep pay attention to sales. The principles of limited assortment and time restrictions have carried over successfully to flash sale and daily deal sites, such as Gilt Groupe and Groupon. Through these platforms, shoppers are urged to complete impulse purchases and compete with one another to receive the best buys.

During the 2011 Gamification Summit in New York, Gilt Groupe CMO and Co-Founder Alexandra Wilkis Wilson discussed how the Gilt Groupe site was developed through the concept of sample sales. By providing limited assortment and high discounts on luxury items, the company provides shoppers with the ultimate incentive to visit the site early and often.

“First and foremost, we require customers to register,” Wilkis Wilson explained. “That’s one portal. Then, they need to check our site: if they want access to the best assortment of merchandise, they need to log in at 12 noon EST when the sale begins, since merchandise sells out very quickly.”

Gilt members have established methods of grabbing their inventory of choice, including signing up for item wait lists and “hoarding” items in their digital shopping carts. Wilkis Wilson also explained that shoppers have a tendency to “browse from the bottom up” to grab last-minute merchandise before sales end.

In an effort to increase loyalty, connectivity and purchases among its subscriber base, Gilt Groupe launched Gilt Noir, an elite loyalty group for the top 1% of its online shoppers. Zichermann shared in his book, *Gamification By Design*, that eligible members receive a “welcome package,” which includes a scented candle and welcome card. However, exclusive access to sales and the ability to enter events 15 minutes early makes the program most coveted.



Tapping Gamification To Optimize Employee Engagement

The benefits of utilizing incentives and rewards to encourage shopper activity are becoming more tangible. As a result, many organizations are tapping gamification strategies to increase motivation among employees. In fact, by 2015, more than 50% of organizations that manage innovation processes will gamify those processes, according to Gartner research.



"Enterprise architects, CIOs and IT planners must be aware of, and lead, the business trend of gamification, educate their business counterparts and collaborate in the evaluation of opportunities within the organization," said Burke of Gartner.

This emerging trend, called "Enterprise Gamification," allows business owners, store managers and retailers to keep pace with modern, tech-savvy workers, according to Zichermann. "This trend is gaining momentum both because of its successes and the unique challenges of managing a millennial workforce that has grown up on games," he said. "It's difficult to keep employees' attention on work tasks when they're used to 'World of Warcraft'-level reinforcement."

Retailers can implement training and employee performance programs that include challenges, games and prizes for completion. By utilizing this method, organizations can increase engagement and ensure that all employees are educated on daily tasks and new rules, and are up-to-date on company developments.

"Depending on your brand's goals, there are many ways gamification can fit into your human resources strategy," said DeMonte. "Gamification also can be considered a behavior data-based reputation program, which can create even more meaning behind who wins titles such as employee of the month." Currently, Badgeville is working with organizations including Deloitte and eBay to gamify specific areas of human resources and employee training, DeMonte told *Retail TouchPoints*. Numerous retailers have shown interest in leveraging a similar strategy for store associates and corporate employees, she added.

According to Gartner, there are four key benefits of driving enterprise engagement via gamification:

1. **Accelerated feedback cycles.** Employees look forward to annual feedback, such as performance appraisals. In the meantime, companies can keep employees engaged by utilizing game levels and milestones that make associates and team members feel like they're succeeding on a daily basis, rather than once a year.
2. **Well-defined tasks and rules.** Although many organizations leverage training programs and employee manuals to make sure all goals and rules are known, gamification helps communicate well-defined tasks and rules, and ensures employees have the tools to succeed.
3. **A compelling story that drives action.** Gamification allows organizations to create a compelling story that drives participation and creates greater likelihood that goals will be achieved in a time efficient manner.
4. **Achievable tasks and rewards.** By providing short-term goals, companies can keep employees on their toes and prepared to complete challenges for rewards.



"Where games traditionally model the real world, organizations now must take the opportunity for their real worlds to emulate games," Burke explained. "Enterprise architects must be ready to contribute to gamification strategy formulation and should try at least one gaming exercise as part of their enterprise context planning efforts this year."

The Future Of Game Engagement

Consumers are becoming hyper-connected via the web, smartphones and social media, presenting retailers with an opportunity to implement tools and strategies to drive action across these interactive touch points. Gamification presents an optimal way for retailers to engage with customers in-store, at home and in motion, and keep their brands top of mind.

"As today's consumers evolve from stationary models of entertainment and information gathering, to one where they experience our world by immersing themselves in it, they are going to seek ways to make encounters more meaningful and interesting," said Forshay. "The power of connection and information allows consumers to demand greater degrees of intimacy with the brands they most admire."

Brand marketing is transforming into a two-way conversation. As a result, it is imperative for retailers to engage with consumers and encourage them to interact with brands across the channels they frequent.

“Industry research shows that 27 million web sites launched in December 2011; that’s 383 million more sites than there were in 2010,” said Paharia. “Clearly the audience size is growing, so competition for consumer eyeballs is becoming more intense. Gamification can help retailers differentiate their message, engage more users and provide more compelling experiences.”

Nadim Hossain, VP of Marketing for PowerReviews, a social commerce solution provider, also pinpoints the opportunity for retailers to implement gamification and create more memorable and engaging brand experiences.

“Retailers can now take advantage of tools designed to enhance the three components of social success — content, engagement and measurement — in order to generate sales and more traffic to their sites,” Hossain said. “Interactive marketing strategies such as gamification provide a way to get people engaged easily and keep them engaged for the long term. More than simply making a site more ‘entertaining,’ gamification techniques employ the engaged, productive and rewarding aspects of game play to motivate more consumers to take the actions that drive more business for retailers.”

However, there is a clear differentiation between good and bad gamification, industry experts explain. This makes the entire planning and strategizing process crucial to the success or possible failure of gamification campaigns.

“Simply adding badges to a digital campaign or web site won’t succeed in the long run,” Paharia explained. “Understanding and supporting the goals of the program, and the specific needs and interests of the tech-savvy target audience is critical.”

Galen of shopkick also pinpointed the thin line between a successful and poor gamification strategy. “Gamification is a little like cooking: when you do it right, it’s a great thing. But when you do it wrong, it’s horrible,” he said. “If there’s too much gamification, it gets in the way, and it’s actually a turn-off for shoppers.”

“It is best for retailers to incorporate gamification across their entire customer-facing experience. This includes their e-Commerce stores and shopping carts, customer review communities, mobile apps, company blogs, and possibly even in-store shopping experiences.”

- Adena DeMonte
Director of Marketing
Badgeville

As the benefits of tapping incentives, rewards and challenges become more recognized and substantial, retailers will see gamification as a viable business strategy, according to DeMonte. However, to see true ROI results, merchants must be willing to gamify the enterprise across channels.

“It is best for retailers to incorporate gamification across their entire customer-facing experience,” DeMonte said. “This includes their e-Commerce stores and shopping carts, customer review communities, mobile apps, company blogs, and possibly even in-store shopping experiences. The more they can immerse gamification into their overall brand strategy, and create a fully connected network, the more power they have to reward customers for their behavior, and the more impact they will have on their bottom line.”

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- Doug Galen
CRO
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