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RETAIL STRATEGY CENTER

Interview with a pioneer

The Godfather of retail loyalty marketing

by Neil Raphel, Raphel Marketing (June 29, 2002)

Brian Woolf is one of the world's leading experts in loyalty marketing. In addition to writing three definitive works on the subject, "Measured Marketing: A Tool to Shape Food Store Strategy", "Customer Specific Marketing", and "Loyalty Marketing: The Second Act", he spends his time helping retailers develop and strengthen their loyalty programmes. In this interview with Neil Raphel, Brian talks about the evolution of loyalty marketing in the supermarket industry...

Q. Are we getting to the point where there is customer fatigue with loyalty marketing programmes? Do you think customers are getting confused or fed up with these programmes?

A. I think it depends upon the programme. My assessment is that people have accepted that you need a loyalty card for most places you shop at today, not just food retailing. For example, when you go to Blockbuster or when you go to General Nutrition Centers or when you go to hotels and airlines, they all have loyalty cards. But there is a real problem in what l call the "information paradox." We want to gather a huge amount of information on customers but when we do that we only market to the top 30%. That means the bottom 70% aren't being marketed to, because effectively you can't afford to. Those are the people who are most likely to get bored or disappointed because they say, "Hey, the store has all this information on me but they never communicate with me." l think one of the biggest challenges retailers have today is handling the bottom 70% of customers who have joined programmes but do not receive marketing offers.

Q. What is the benchmark for capturing card information to have a good loyalty marketing programme?

A. The normal threshold to have a world-class loyalty programme today is that you are capturing 80% of sales on the card. The best in the world are capturing over 90% of their sales on the card.

Q. Doesn't that fly in the face of some of the things you talk about in your new book such as just tracking the sales of the top 30% of your customers?

A. We needed to capture a high percentage of sales to understand the customer. But now that we understand our customer the question is, "Do we need to get all that information?" Even if you capture 80% to 90% of sales, you are still only marketing to the top 30% of your customers. So if there were a way to identify the top 30% through some opt-in process like a membership fee or some qualification programme and market only to those people l think you would be better off. But you would lose a lot of your data.

Q. Are there examples in other industries that just go after the top 30% of their customers and charge a fee for their programme?

A. Yes, it's very common in the hotel industry. A number of hotels charge an entry fee for a card to weed out the incidental customer. Here is a retail example: You can't be a member of Niemann Marcus's Inner Circle unless you spend $3,000 a year with Niemann Marcus. Now you can apply to join and it will cost you $50 to join, but even then you don't get the same benefits. You receive some comparable benefits. So precedents for charging to join loyalty marketing programmes have already been made in other industries.

Q. Aren't those industries different because there isn't as much differential in households in food buying compared to purchases of airline tickets or expensive clothing?

A. I think there is a lot of diversity in food buying and a lot of splitting of food buying. Larry's Markets in Seattle, Washington already has a $40 membership fee for their card. They basically have said, "We're going to market to our best customers because they provide a large portion of our sales." We know that in a typical supermarket chain, 10% of the customers provide abut 40% of the sales and 20% of the customers give you 60% of sales and 30% give you 75% of sales. lf you just focus on that group, you really have the bulk of your purchases right there, and that's what you should be focusing on.

Q. One of the selling points for loyalty programs has been that you can get rid of a lot of your mass marketing, such as newspaper ads and television advertising, when you start a loyalty programme. Is that effective now that many stores have cards? Don't you still have to invest in mass marketing or risk losing customers to your competitors?

A. I don't think there is one answer that fits all. Whether you can cut back on advertising depends upon your promotional strategy and also depends upon your level of differentiation. The more differentiated you are as a retailer, the more you can afford to drop your advertising. For example, Dorothy Lane was able to drop their advertising three months after they started their loyalty programme. Superquinn has dropped their newspaper advertising and Ukrops has cut their newspaper advertising in half. Conversely, Big Y, which is a highly successful food retailer, is also highly promotional and they have maintained their 8-10 page spread every week with highly promotional merchandise on their card, with a limit of five items at the promotional prices. My point is that it really depends upon your strategy. A store which is not clearly differentiated would be making a mistake if they dropped their advertising.

Q. When you look at current loyalty programmes, are most of them two-tier programmes, giving benefits to cardholders and no benefits to people without a card?

A. In the U.S., the two-tier pricing is the norm for a loyalty card programme, because that's the cheapest way you can gather information. In fact, you normally make money out of doing it. You normally increase your gross margin with a two- tier programme became not everyone uses their card. My experience is that a food retailer increases its gross margin typically by 0.5% simply because a number of customers don't use a card. That pays for the programme. That's stage one. Stage two is how the retailer uses the information they are getting for free.

Q. Wal-Mart is becoming a much bigger factor in the supermarket industry. They offer everyday low prices. Does Wal-Mart need a card programme?

A. Keep in mind that the purpose of a card programme is information. My understanding is that Wal-Mart discount department stores and supercenters are approaching the information angle from two ways: First, they do a huge amount of basket analysis. Second, they bought a bank and they are trying to get into banking in a big way. I suspect they are trying to get the information through the Wal-Mart credit card. Also, Wal-Mart owns Sam's Wholesale Club and Sam's are using customer information quite effectively. I suspect that Wal-Mart will find a way to get customer information and use it effectively over time.

Q. In your new book you talk about how many new customers stop coming back to a supermarket within a year or even within a few months. Yet don't stores need new customers to survive?

A. In my research over the last eight years l find that even those retailers who have eliminated newspaper advertising are getting approximately the same inflow of new customers as those who advertise. The rule of thumb in the supermarket industry is that every week you get 30 new customers per every 10,000 customers you have on your database. You are already getting an inflow. The big challenge retailers have is holding those customers, because we find, and I see this all around the world, retailers losing anywhere between 40 to 60 percent of their new customers within three months. That's the big problem. We're getting them in. We're just not keeping them. That's one of the big benefits of a loyalty card because now we can quantify what the losses are, we can introduce programmes to start stemming the losses and then we can measure our success. Without a loyalty card, we have no clue as to that ebb and flow of new customers.

Q. What do you see as new services being offered in loyalty programmes? You mentioned banking at Tesco and Superquinn. Are banking programmes going to be a significant feature in the US?

A. I think it's a natural development from customer information. For example, at Boots in England (the United Kingdom's leading health and beauty aid retailer) they've introduced travel insurance because they found a lot of their customers are buying suntan products to go on vacations to the Mediterranean.

At Tesco, the cost of acquiring a banking customer is significantly less than half the cost it is for a bank to acquire a customer because Tesco knows the customer's shopping profile. They have a much clearer appreciation of who might be inclined to be a banking customer. Tesco is probably the world's leader today in using customer information to go into other businesses.

For example, they've gone into home delivery and they have used the customer's shopping in the store as the opening screen when the customer goes to the website. Instead of having the 20,000 SKUs in alphabetical sequence, they go into the customer's purchases in the last three months in a regular Tesco store and those items come up on the screen first.

They have also bought a 55% interest in a company called Dunnhumby who do the analysis for Tesco and now they are making a business of selling Tesco information to manufacturers. Manufacturers can go in and study any part of Tesco's data for a price. This will improve the manufacturer's marketing, which in turn will improve Tesco.

Q. What would be the big advantage for the use of smart cards?

A. The biggest advantage of a smart card would be the promotional flexibility. A smart card does cost more than a bar-coded card. Let me give you an example of what Esso, the gas chain, is doing both in the Netherlands and in Ireland. Every time you make a purchase of more than six gallons, if you make the next purchase within four days you get double points. If you make the next purchase within eight days, you get 150% of your points.

A food retailer could say if you spend $35 on a transaction and your next transaction is within seven days, we will give you additional points or additional discounts or some other benefit. We know through our research that frequency is the primary driver of sales. A smart card can do that because it stores the date of the last time a customer shopped and how much she spent. Another thing you can do with a smart card in a similar sort of programme is that you can make rewards to customers a function of their recency, their frequency and how much they are spending. All this information is carried around by the customer on their smart card. So you can have different offers to customers in the store at a store's kiosk and the customer can receive unique offers to her when she puts her card into the kiosk.

Q. So that would be true one-to-one marketing.

A. It is. It's very individualised. You can lock into a smart card the customer's promotional responsiveness, their ethnicity, basic demographic data. All that can be built into the promotional offer when the customer puts the card into the kiosk.

About the author...

Raphel Marketing is online at **www.raphel.com**

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, Measured Marketing: A Tool to Shape Food Store Strategy, Customer Specific Marketing, and Loyalty Marketing: The Second Act. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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