

Crazy Prices ... And More!

How can supermarket operators differentiate themselves from behemoth discounters, with their low costs and prices? High quality meat and produce? A great bakery? Superior service? Yes! Yes! Yes! But there's far more to it - and here's how...

by Brian Woolf (March 18, 2005)

Imagine one of those behemoth discounters, with their low costs and prices, having stores scattered throughout your market area. You are a supermarket operator. How do you differentiate yourself? High quality meat and produce? A great bakery? Superior service? - Yes. Yes. Yes. But can you imagine ever competing, at least to a limited degree, on price? Can you ever dream of using as your mantra - *Always the Lowest Price on Basics. Period.?*

Yes, you can, and Spokane, Washington-based *Tidyman's*, is doing it. Here's how.

For the second consecutive year, Tidyman's is offering to its regular customers items such as a dozen eggs for 9¢; bananas for 9¢ lb; a gallon of milk for 99¢; any brand of 12-pack soft drinks (eg, Coke, Pepsi) for 99¢; large Tide Detergent for \$3.99; and Huggies Jumbo packs for \$3.99. As any shopper immediately recognizes, these are, indeed, Crazy Prices! For example, a typical supermarket price for Huggies is \$9.99; at the behemoth it's \$6.99; but the Crazy Price program offers it for only \$3.99!

Is management at Tidyman's crazy? On the contrary; they indulge in *smart thinking* (coincidentally, their tag-line). What CEO Mike Davis and his team realized is: (1) the purpose of their Rewards Card program is to reward and strengthen their customers' loyalty; and (2) the behemoth doesn't know who its customers are (no card program!) and, therefore, offers the same price to everyone who walks through its doors. A loyalty program

provides powerful advantages - such as customer knowledge and the ability to differentiate - and should be leveraged to the hilt!

Davis looked at his customer numbers and saw two fundamental factors: the more his customers spend, the higher their gross profit percentage; and, the more his customers spend, the lower their defection rates. Therefore, he reasoned, it was in his company's best interests to increase the number of higher spending customers.

One highly effective option was to reinvest some of the superior gross profit percentage of these customers in the form of Crazy Prices. In other words, allocate promotional costs according to customer contribution rather than the traditional retail approach of having higher-margin customers subsidize the lower-margin customers and cherry pickers. [Not a difficult concept for Davis, an ex-CFO.] The outcome? As expected - more frequent trips by their regular customers meaning more sales, profits, and higher customer retention rates.

So, you ask, how complicated is Tidyman's method of getting these crazy prices just to its regular customers? Actually, it's dead simple - they have a points-based loyalty program. Tidyman's gives 10 greenpoints on every \$1 of total spending together with bonus points on various higher-margin products (eg, avocados) around their stores. It's obvious that regular customers who do most of their shopping at Tidyman's readily earn a lot of points. And the most popular option customers choose in redeeming their points is on these crazily priced items.

A specified number of *greenpoints* is required to buy each Crazy item at its absurd price. For example, to buy bananas at 9¢ lb or Huggies at \$3.99, a customer needs to redeem 500 or 900 points, respectively, out of her accumulated points balance. That's simple with the help of Tidyman's point partner, *S&H greenpoints*, who offers an on-line, real-time system that allows customers to know their up-to-the-moment point balance when checking out.

The Bottom Line

In my mind, Crazy Prices is a brilliant idea. It is such an open and honest way to reward regular customers. The more points a customer earns, the more often she can take advantage of the country's absolute lowest prices on key items - truly Crazy Prices! Each customer decides, based on her spending behavior, how many of these Crazy Prices she wishes to take advantage of, and how often. Crazy Prices encourages and rewards customers for aggregating more of their shopping and provide a powerful reminder to customers keep coming back.

Not just that, Crazy Prices is straight out of classic Loyalty Economics 101: customers should be segmented according to what they contribute to the business and then rewarded accordingly. Consider this: if, for example, a retailer wanted to buy 1,000 cash registers for its stores, it would expect a lower price per register than if it was ordering only 10 cash registers. Why then, Loyalty Economics 101 asks, shouldn't customers get similar proportional pricing concessions? Crazy Prices provides that. For too long, retailers offering loyalty programs have professed that their goal is to reward and strengthen their customers' loyalty. Yet too few programs are designed to actually achieve that goal. Tidyman's is a refreshing exception.

Crazy Prices reflects a management attitude that I call the *Access Attitude*. Points are used as a rationing device; they are used to give customers access to exceptional value. In today's brutal, price-oriented world, retailers without the buying power of the behemoths must carefully ration their promotional markdowns. They can't afford to give low, low prices to everyone - but they can, and should, give them to those customers who provide the major part of their sales and profits. Tidyman's program demonstrates this so well. Management also applies different point values per \$1 of markdown across their Crazy Price offering which means there is no fixed value per point in customers' eyes. This flexibility allows the company to continually tweak and experiment with different types of value.

As a result of its underlying *Access Attitude*, Crazy Prices is a much more potent points program than the traditional *one-point-per-\$1 spent and we'll take \$5 off your order when you have accumulated 500 points* program. Such is simply a 1% rebate program.

Excellence Comes In Threes

As an old saying goes, everything comes in threes. Excellence is no exception. Two other elements of the Tidyman's program that I put in the *outstanding* category (ie, worthy of emulation by others) are their Checkout and Playing Cards programs. Let me describe them.

Checkout Program

Most retailers have their cashiers ask customers: *Do you have a customer card?* Tidyman's have replaced that question with a much better one. Their cashiers ask one of two questions: *Are you collecting greenpoints?* or *Would you like your eggs for 9 cents?* (if eggs are in the order). Reminding customers of your card's benefits is unquestionably superior to reminding them of the inconvenience of carrying yet another "loyalty" card!

Playing Cards Program

To reinforce their Rewards program and to surprise and delight their customers, Alex Plummer, the VP of Sales & Marketing at Tidyman's, developed a deck of "playing cards".

The back of each card has the words *grab more green!* surrounded by points (green, of course). There are just three different face cards: *Get double; triple; or quadruple points ... on your order today.* A manager, whenever he wishes to add fun, excitement, and value to his customers' shopping trips, walks around his store and invites customers to "draw a card". When checking out, the customer simply presents her *grab more green!* card and the points she earned on the order are appropriately and automatically multiplied.

Closing Thoughts

It's refreshing that loyalty marketing creativity is still in a state of ferment - in all sorts of surprising places. It's also reassuring that some retail leaders, such as Tidyman's, are thinking through ways to use their point-based programs to truly reward and retain their regular customers. That focus, too many forget, is the fundamental basis of loyalty marketing.

It's also a pleasure to see such creativity being recognized by the customers. Tidyman's Rewards achieves the highest share of sales captured by a points-only retailer loyalty program that I've ever seen - anywhere in the world!

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About the author...

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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