Turning tactics into strategy

Sometimes we get so bogged down by our competitive tactics (eg, matching competitor ad prices) we are blinded from seeing that we are only one step away from turning our actions into a long-term strategic advantage...

by Brian Woolf (March 26, 2010)

I was reminded of this last week as I was given a comprehensive 3-day retail overview of Lima, Peru.

The Lima retail scene impressed me. It is a highly competitive marketplace of 8 million people. The quality of its retailers (department stores, home improvement centers, specialty retailing, and food, both supermarket and hypermarket) would grace, with ease, any major city, anywhere.

What triggered this article was what I saw in Metro, one of Peru's leading hypermarket chains. Metro was featuring 22 low-priced offers, each available with a certain number of points. In other words, only members of their loyalty program with the appropriate accumulation of points could take advantage of these great prices. Metro changes this price/point offering in its ad catalog every two weeks. In addition, from time to time, in response to competitive or sales pressures, it also tactically advertises, on television, 3-day weekend specials other compelling price/points offers.

The purpose of such promotions is, of course, to offer popular items at prices below the hottest ad prices, but they are limited to customers who have accumulated enough points. Metro's competitors cannot match these low prices unless they have an equally flexible points system in place. Obviously, competitors without a points-based loyalty card program are at a severe price-perception disadvantage.

Some examples of Metro's Access Pricing offers ("Access" because only customers with points have access to these very low-priced offers) I saw were:

Dozen Eggs (Reg price 4.95 Soles)	Now S/. 2.19 + 15 points
Metro Vegetable Oil (Reg 5.50 Soles)	Now S/. 3.89 + 20 points
2 Pack 3-Liter Coca Cola (Reg 13.25 Soles)	Now S/. 9.90 + 49 points

[Soles are the Peruvian currency. Currently, US$1 = S/. 2.84]

The price/point items offered ranged from steaks and sausages (random weight items had a weight cap on the item purchased) to milk, cheese, beer, detergent, and toilet tissue. All were popular items. All were at great prices. All reflected excellent tactical pricing.

But is that strategic pricing? How many offers can a regular customer take advantage of in a month? Can she earn enough points to buy her month's supply of needs at these prices at Metro? [In which case, she won't have to read a competitor's ad catalog ever again!]

Let's do the math and find out. Assume a customer shops only at Metro. She would have to spend (ignoring the occasional items offering bonus points when purchased) 150 Soles (US $53) to earn enough points to buy the Vegetable oil and almost 370 Soles (US $130) to buy two bottles of 3-liter Coke. Great tactical pricing but the spending hurdles are frustratingly high to put golden handcuffs on a customer. [A customer receives one point per 7.50 Soles (approx $US 2.65) of her total spend.]

So, you ask, what step is needed to convert this tactical marketing into a strategic difference? It's easy (well, it appears easy; the background math is the critical element) and others have already done it. The step is this: significantly increase the number of point-earning opportunities around the store— by offering points on, in addition to the total transaction, high-margin items displayed near each price-point offering and elsewhere in the store. Offering bonus points on high margin items increases the store's Gross Profit which helps subsidize the low prices. For example, in the above case, offering 15 Bonus

Points on, say, 10 units of yoghurt (at full price) bought not only would provide a customer with the points to buy the eggs but would increase a customer's total spending which, in turn, provides the Gross Profit to pay for the eggs mark-down!

What makes this approach especially advantageous for Metro is that it's front-end system is already on-line, real time; customers have their points balance always up-to-the-minute as they enter the checkout; and (a special competitive advantage of Metro's) points earned in each transaction are immediately added and can be deducted from the same transaction if a price/point item is purchased.

This step can be made even simpler and even more effective. Rather than advertising every two weeks 22 different price-point items, Metro could offer, say, just 12-20 demand items (eg, eggs, rice, toilet tissue, Huggies, cooking oil, Coke & Pepsi) with an extremely low price (with points) all year round (with prices are so low, they're called Crazy Prices!) Imagine, with one step, becoming known in the marketplace as having, always, the lowest prices on demand items. That's a strong strategic position to be in.

Tactics or strategy? Which path will be taken? How will the competitive interplay unfold in this dynamic marketplace with its first-class retail leadership?

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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www.brianwoolf.com

E: brian@brianwoolf.com
T: +1 864 458-8277

Retail Strategy Center Inc.
6 Parkins Lake Court,
Greenville, SC,
29607-3628
USA

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