

The Differentiator

Differentiation is a critical element of effective strategy, whether we are talking about a corporation or a loyalty program, and Big Y does it best...

by Brian Woolf (June 14, 2011)

As you know, differentiation is a critical element of effective strategy, whether we are talking about a corporation or a loyalty program. When we talk of the latter, Big Y does it best: Big Y is The Differentiator. It has been different right from its loyalty program's launch in 1991.

So it was no surprise to learn that in March it introduced yet another major differentiation. The surprise is always learning what this creative food retailer adds to its free-membership Big Y Express Savings Club program. This year's surprise was the launch of a second loyalty card, the Big Y Silver Savings Club - with a \$20-year annual fee - a first for any major food retailer anywhere in the world. Of course, the Silver Savings Club card offers additional benefits and additional simplicity. And, of course, once the program settled down, I had to go and see it in action. I came away convinced that The Differentiator had, indeed, widened - and deepened - its competitive moat.

Big Y today has 60 large attractive supermarkets, spread across Massachusetts and Connecticut. To understand its new card launch we should view it in the context of its loyalty history. When its Express Savings Club program was launched 20 years ago it clearly differed from its competitors - it made shopping easier! At the time, New England was awash in a sea of coupons. Retailers loaded their weekly ads and circulars with numerous great-value coupons that customers had to clip and present when shopping. Big Y's new Express Savings Card was launched with a simple message - you'll never have to clip another coupon at Big Y! Instead, customers were told they could buy up to 5 of each coupon item in the weekly ad at the coupon price just by presenting its new Express card! Big Y dubbed the program *clipless coupons!*

Ever since, Big Y has avoided copying competitors' programs. *[Don't mimic - mystify!]* That attitude is reflected in the six meetings each year its top executives have that discusses one simple question: How can we make our program better by differentiating it even more? Some of the major pioneering changes that have flowed from these meetings include:

- How can we sharpen our promotional pricing? Big Y's response was, in the early 1990's, to make all store price reductions available only with its Express Club card but with a limit of Up to 5 on every such sharply-priced item [thereby limiting the markdown losses].
- When everyone else is promoting BOGOs (Buy One Get One Free) what alternative card-based offer can we come up with that would be a standout? Big Y's answer was BOGTs (Buy One Get Two Free)!!!! This advertised promotion, currently offered 8 weeks a year, still triggers sales records, just as they did when introduced over 15 years ago! No other food retailer, anywhere, has ever successfully done this.
- After our loyalty program has been operating for several years and we have identified our best customers, how will we reward them differently? Big Y's unique solution was to create an alternative currency. It introduced Big Y coins (actually colored, coin-like, plastic tokens) and gave them as a Thank You to customers as they checked out: no explanation was given as to what was required to earn them. The coins were redeemable in any subsequent visit for significant discounts on selected merchandise clearly indicated by store signs. The program started with four different coin colors, representing different values. For example, a special rotisserie chicken might have a regular shelf price of \$9.99 but be featured at \$7.94 with a silver coin, \$5.94 with a red coin, \$3.94 with a blue coin, and free with a gold coin! Even today, customers and employees still don't know top management's formula for deciding which customers will receive which coins (if any) when they shop. But we can feel certain that the customers who produce the most sales and/or profits receive the most gold coins. And we can also work out in broad terms how the other colored coins might be allocated. The bottom line is that Big Y's coin program has become an entrenched, differentiating alternative currency - redeemed mainly, but not completely, in Big Y stores. Over the years, as the coin program grew in popularity, the red and blue coins were dropped to simplify the program (and the variety of coins customers' had to carry). In summary, this coin program gave Big Y a vehicle that rewarded its customers relative to their profitability in a way that competitors can neither measure nor effectively respond to. Again, no other retailer has ever successfully taken this approach to rewarding customers.

- Which brings us to today. With only two coins now, silver coin deals have proliferated, causing customers to ask how can they earn more coins to take advantage of the increasing number of silver coin deals? Question to management: How should we respond to a contradictory request of more coins to take advantage of the increasing number of great silver offers but without the hassle of filling purses and pockets with them? Big Y's solution? Launch a second, optional card for \$20 per year, providing greater value while, at the same time, simplifying customers' shopping by not having to save, carry, and ration their silver coins. Silver Savings Club cardholders are able to take advantage of every silver coin offer in the store on every visit simply by presenting their card! [Seems an echo of clipless coupons - coinless coins!] And there are, indeed, many great silver coin deals - last week I counted over 200 of them, covering all departments. In addition, most offered an even lower price for gold coin holders. [Gold coins are still issued to both Express Club and Silver Club cardholders, while silver coins are now issued only to Express Club cardholders, ie, those customers who have not yet switched to the Silver Savings Club]. I saw, for example, a beautiful Apple Pie with a shelf price of \$10.99, offered at \$8.98 with a Silver Saving Club card (or a silver coin) and only \$4.98 with a gold coin! From a regular customer's viewpoint, it would be almost impossible not to break-even on her \$20 annual fee in a very short time, particularly when you throw in Big Y's gas offer: a permanent 5-cents-off-per-gallon with your Silver Savings card at over 70 surrounding gas stations! [Not to forget its best customers - with a gold coin, gas is 20-cents-per-gallon off!] Clearly, this new Silver Savings Club card is a wonderful, and different, way to put silver handcuffs on Big Y's regular customers.
- But the greatest, yet seldom-considered, differentiator this company has embraced is the complete integration of its loyalty card(s) program with its merchandising, pricing, promotions, and operations that, all together, help drive its impressive sales (and profit) growth each year. This total integration, in conjunction with Big Y's loyalty differentiators, has built it a formidable competitive advantage over time.

Now, as a loyalty strategist, what do you think Big Y's next surprise might be? You can be sure it will be different. For many years, this company has impressed me as having the world's most creative (and unique) loyalty program. That's why I call Big Y **The Differentiator**.

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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