

Reward Total Spending or Spending on Specials?

A comparison of two new loyalty programs with very different reward goals...

by Brian Woolf (October 7, 2012)

Just lately we have seen an interesting development in US High Frequency Retailing (to use the new vernacular!) - Walgreens, a nationwide 8,000-unit drugstore and Raley's, a 137-store Sacramento, California-based supermarket chain both launched their long-anticipated loyalty programs. Both programs incorporated points which have been largely missing from the US High Frequency scene over the two decades, the era when loyalty programs became commonplace.

The reason for that absence has been the low profit margins of food retailing in particular compared with, say, the UK. With a very low profit ratio, copying the standard European or Japanese 1% loyalty-program point models (1 point per \$1, earn 500 points, get \$5 back) costs close to 1% sales. For the typical US food retailer, introducing such a model requires an increase in sales of 5-7% to break-even. [You may see the calculations, based on different corporate economics, in Chapter 4 of *Loyalty Marketing: The Second Act*, [**downloadable free**](#) from the Retail Strategy Center website.]

So how did these two companies introduce points to their customer? Raley's have announced, through their stores and their excellent loyalty website, that customers who wish to be rewarded for what they spend will receive one point per \$1 spent (plus points on selected in-store items) and, at the end of each quarter, will receive in the mail a cash-rebate certificate provided they have an accumulated balance of 500 points or more. This is basically the Tesco model, so I think its fair to assume that the rebate vouchers will be for 1% (eg, a 500-point balance will trigger a voucher for \$5) redeemable in a Raley's store. At Tesco, this rebate voucher is accompanied by up to 8 targeted coupons based upon each customer's spending and preferences. The mailing, of course, is funded by the manufacturers whose products are being offered. In addition, Raley's have invited cardholders to sign up for individualized email offers, also based on each customer's purchase history and, in addition, known only to each recipient. Such below-the-radar offers make it very difficult for competitors to respond to with traditional advertised price cuts.

One aspect of Raley's program that I particularly like is that you do not have to be a member of their *Something Extra Club* to take advantage of their advertised specials. They are available to everyone visiting their stores. You sign up for their card only if you want if you want a 1% rebate on your spending, individualized email offers, and various other benefits. This focuses the program on Raley's regular customers as opposed to the many convenience customers they have. In turn, this will reduce the cost of the program (or allow more to be spent on the regular customers!)

Success with their points program will come in one, or all, of three ways:

1. Members increase their spending because they are now rewarded for everything they spend
2. Members increase their spending because of the stealth targeted offers they receive triggering, in turn, an increase their shopping frequency and loyalty to the company
3. From the customer and product data the company learns ways to rationalize its inventory assortment and effect operational efficiencies.

We wish them well.

Walgreen's, who have been studying loyalty programs for as long as I can remember, have introduced a hybrid-type loyalty program offering a mixture of card-based price reductions and points. Like the traditional supermarket loyalty program, some items ("specials") are reduced in price for their *Balance Rewards* card members only. But not all specials require a card to get the lower price. This is unlike the typical supermarket two-tier pricing loyalty model where a card is required for all specials. So, while shopping my local Walgreen's last week I saw non-card specials with headings like Hot Deal and Special Price as well as those headed by Balance Rewards Special! Also, unlike the traditional supermarket model, I received a coupon book with "over \$345 in savings" available only when you found the item in the 64-page coupon book along with the item on the shelf and presented both at checkout with your *Balance Rewards* card. Each coupon had a limit of one. In addition, a cardholder could save by buying Balance Rewards Point items. These were clearly signed at shelf level as well as being featured in their weekly 16-page, in-store flier along with non-reduced seasonally priced items (eg, Halloween) other cut and clip coupon offerings which didn't require the Balance Rewards card.

Front-page Balance Rewards point items highlighted last week included: Buy 3 24-pack Nestle Pure-Life Water and earn 500 points [or buy 2 packs, earn 250 points; buy 1 pack, earn 100 points]; Buy 2 packs of Nabisco cookies for 99c each; earn 250 points if you buy two; Buy an 8-oz jar of Folgers Instant Coffee and earn 250 points; Earn 1,500 points if you buy \$15 or more of participating Frito Lay or Pepsi products. [I assume the products were appropriately identified at shelf level.] Walgreen's enrolment brochure states there are thousands of items each week that offer points. In addition, 500 points can be earned with every prescription and immunization.

Balance Rewards points are added to your card at each transaction and may be redeemed in lump sums in a later transaction (no change given). The lump sums are: 5,000 points (credit reward \$5); 10,000 points (\$10); 18,000 points (\$20); 30,000 points (\$35); and 40,000 points (\$50). Most members will quickly adopt the rule of thumb that 1,000 points offered is the same as a (delayed) credit of \$1 when making purchase decisions. Using that simplified rule of thumb, my math told me I would have received a 50c delayed credit if I had bought 3 24-packs of Nestle water or a 25c delayed credit if I had bought a jar of Folgers Instant Coffee. And if I had filled a prescription, I would have received a 50c delayed credit.

Aiming at the key Seniors market, the Balance Rewards program offers 5 exclusive bonus point offers and 5,000 points when such members spend \$25 every month. The incongruous element of this offer is that a cardholder must register to join this Seniors program by showing his or her AARP card, despite everyone's actual date of birth being required when applying for their Balance Rewards card!

One other quirk in the program which may (I hope) be just a short-term systems issue is that when you ask to redeem a lump sum of points as a credit (deduction) from a transaction, any points offered on items purchased in that transaction will not be recognized! But don't worry, my local cashier told me how I could get around the problem; just have two transactions. One devoted to items being purchased that earn Balance Rewards points and a second devoted to the lump sum credit applied against the other items purchased that don't carry points.

My assessment of the Walgreens Balance Rewards program is that it is a specials-based rewards program as opposed to the Raley's spending-based program. Walgreens are offering a lot of special items with lower prices for cardholders, given in one of three forms: immediate price reductions, limited (coupon) price reductions, or as delayed-credit point offers.

The downside to this specials-only approach is that it does not discourage customers from splitting their shopping between Walgreens and nearby supermarkets on the non-specials, where supermarkets often offer lower prices than drugstores. This, I assume, will be one of the most closely watched internal metrics on the program's success.

Both companies' programs are new to the US scene. The question marketers will be asking: Will this specials approach be as successful for Walgreen's as the spending approach is for Raley's? Two fundamentally different approaches: reward spending or reward specials? And you, dear reader, which do you think is more likely to achieve better results?

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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