How Successful Was Walgreen's Loyalty Launch?

I suspect that most of us interested in loyalty marketing have been keeping an eye on Walgreen's balance™ rewards program since it launched in September 2012 (the first month of its new financial year)...

by Brian Woolf (January 27, 2013)

Articles and corporate publicity tell us that its debut was Walgreen's "largest and most highly integrated marketing campaign, including television and in-store marketing." I even heard a key executive tell a marketing audience that he predicted it would be the largest and best loyalty program in the US.

Well, the financial results for the first quarter (Sep-Nov 2012) are in and we learn that 45 million customers signed up for their customer card. Was this success? Of course, it depends. We don't know what the company's goals were, so let's look at the launch with outsider's eyes.

The company has stated that it has about 100 million customers a year, an average of 12,500 per store, whereas in its launch quarter an average of 5,625 per store (45 million cards ÷ 8,000 stores) signed up. Does that mean that a number of its regular customers didn't sign up or that they have many customers who visit only 1-3 times a year and this quarter wasn't one of those times?

It's fair to assume that many of these 45 million customers (5,625 per store) were their higher frequency shoppers so capturing their names and addresses would be beneficial to the company.

Another way of measuring a loyalty program's success is to see what increase in sales and gross profit the program generated (which is the ultimate purpose of loyalty programs.) This approach focuses not on measuring the program's size (number of cards issued) but on it's effectiveness (ie, did customers recognize and take advantage of the added benefits/value of being a Walgreens cardholder?) One criterion for this second measure is looking at the year-to-year changes in Front-end Comparable Store Sales [ie, their non-pharmacy sales]. An increasing trend would tell us there are more customers, more visits, and more items sold per visit which, in turn, usually means more prescriptions filled and less sales at competitors (drug stores and supermarkets alike). So what was Walgreens trend? Reported

Front-end comps for the 12 months prior to launch were: Q1 +2.4%; Q2 +1.2%; Q3 (0.9%); Q4 (1.3%); and, then, in the launch quarter, Q1 (2.0%). This trend shows a continued deterioration in Front-end comps right through into the launch quarter. The opposite of what was hoped for.

Argus Research reports that Walgreens Front-end sales account for 25% store sales; Over-the-Counter Medicines 12%; and Prescriptions an enormous 63%. So maybe the company's focus was on building Prescriptions. Well, unfortunately, its comparable year-to-year sales decline was much more severe than the Front-end sales, so its unlikely that was the program's primary focus. Therefore, from an outsider's perspective, the program's initial effectiveness would not score a high rating, keeping in mind that most high-frequency retailers achieve sales and (usually) profit gains in their launch quarter.

The question then arises, why didn't Walgreens achieve such gains? The simple answer is that customers did not see enough value in the program to change their behavior to shop more often and/or spend more on each visit. Likewise, the company's largest-ever marketing campaign didn't attract new customers. An investment report by Credit Suisse (Jan 4, 2013) shows monthly year-to-year Front-end customer visits down all year and actually getting worse after the program's launch! For example, Jun traffic was (2.2%), Jul (3.9%), Aug (2.2%), followed by launch month Sep (2.2%), then Oct (5.1%), Nov (5.0%) and Dec (4.0%). This suggests that the value wrapped up in their new prices and points card program didn't catch fire with customers. Could part of the reason be that customers saw the new program as adding an extra layer of complexity that they don't encounter when buying the same items in a supermarket? Plain and simple, it appears customers didn't see enough extra value in the *balance™ rewards*program to warrant increased spending by them.

Successful new loyalty programs usually have two characteristics: they offer something that has dramatic value (remember, getting customers to change their behavior is all about value) and they drop something (eg, an activity or on-going promotion) that helps fund the new dramatic value.

So let me ask you: can you identify the new dramatic value and/or the dropped activity? Has the new *balance™ rewards* program caused you to change your shopping habits with them (the purpose of the program)? After all, there's a high probability you live near a Walgreens store. According to the company, 67% Americans live within 3 miles of one of their stores and 75% live within 5 miles. Their stores are hard to miss!

Now, Walgreens are great retailers. I have no doubt they are currently working on plans to achieve better results from their card program than was achieved in its launch quarter. After all, having the largest card program in the US is a hollow trophy if it doesn't come with favorable changes in their customers' behavior. So let's keep an eye on this interesting program. I'm optimistic we will be looking at better results in the coming months.

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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