Loyalty Marketing: The Next 20 Years

Twenty years ago I had the privilege of spending 6 months researching one question: Why, in those early days of Loyalty Marketing, were a few pioneers experiencing success, many more were failing (losing money), and the rest had ambiguous results?

by Brian Woolf (February 8, 2013)

Then a framework was offered to help food retailers achieve on-going success in their loyalty marketing. The study, sponsored by the Coca-Cola Retail Research Council, was an exciting challenge because, assisted by an extremely talented business colleague, Wanda Shive, we were given access to over 80 retailers in North America and Europe to learn their widely diverse experiences with their early efforts in Loyalty Marketing. From our phone calls, visits, meetings, readings, and data-dives (very shallow in those days!), patterns and lessons emerged and resulted in a report that the Coca-Cola Research Council distributed 20,000 copies. *Measured Marketing: A Tool to Shape Food Store Strategy*, although now out of print, can be accessed free **by clicking here**.

The lessons learned and framework for the future are still highly relevant today even though the loyalty landscape has changed dramatically. For example, in 1993, POS hardware and software were inflexible and constraining, while the web, emails, and mobiles were still largely techie dreams. Social media didn't exist. Technology was a limitation; today it is an enabler.

Recently, I wondered if I were to write a loyalty report today for high-frequency retailers looking ahead at the next 20 years, what might its focus and recommendations be?

My answer? The underlying recommendation would be to truly move our card (loyalty) program to the center of our business. It would be an integral part of our merchandising, pricing and promotions because it provides us a vehicle to differentiate offers and measure our item and customer behavior. This, in turn, leads to more responsive and profitable decision-making. My observation is that most companies still have to take this final step.

That step would be supported by a four-part marketing framework:

1. Muddification
2. Justification
3. Uniqueification
4. Communication

1. Muddification

Looking ahead the next two years, let alone the next 20, it's clear that if you are not the low-cost leader in your marketplace (wherever its boundaries are in this internet world) we need a way to muddy the pricing waters, to offer value in ways that blur direct price comparisons. With smart phones allowing customers to check for lower prices elsewhere while in your store and with the relentless growth of on-line shopping (from diapers to deodorants), traditional retailers are muddifying direct item-price comparisons by adding a form of bundle-pricing, ie, offering customers better value if they spend more. It's an indirect way a way of penalizing customers who constantly shop wherever the lowest price is.

Examples of muddification include gas prices based on how much one spends with the retailer, continuity programs, free generic medicines, offering customer tokens giving them access to special values, and point programs that offer extreme values. Our challenge, as always, is deciding what is the best formula for each of these types of programs and which one is best for our company.

2. Justification

This term honors the great pioneer work of Safeway with its *just for U*program. It's what we have talked about over the past 20 years when we spoke of Customer Specific Marketing. Safeway's customers are invited to sign up for this simple program whereby, each week, enrollees receive two emails: A *just for U* email which includes a list of special prices based upon what you buy; and a *deal match* email which lists the key ad item prices of their two major competitors allowing you to buy the same items at the same price at Safeway so you need not shop elsewhere. Accept any offers by clicking them in the email. That initiates the activation of your special prices when you swipe your Safeway card when shopping later in the week.

Kroger has recently rolled out a similar program. Both Safeway and Kroger have massive databases but mid-size and small card-based retailers should not be intimidated. They can do likewise on a scaled-down basis for we have discovered that Big Data (the new buzzword) does not necessarily mean Smart Data! The winning factor in Justification will not be size but smarts: whom do you target, with what, and why? I know some small companies with great smarts and nimbleness who will do well in this game.

Justification and variations of it will be the norm in 20 years time. In fact, well before then. As retailers, we have to think through and develop our own Justification methodology. Alternatively, we need to develop an approach that will minimize its impact on us from competitors. Justification is an exciting new competitive weapon that we are just learning to use.

3. Uniqueification

Competing to be unique, not the best, leads to superior performance, strategy guru Michael Porter advises us. Uniqueness is simply the extreme end of differentiation. For example, when thinking of Costco we don't think of just low prices but also outstanding quality (and, perhaps, their ever-present sampling!) Offering low prices and quality is a difficult combination to execute well, but Costco does both superbly. For them, the combination of low price and high quality is their uniqueifier that keeps building their customers and sales.

My favorite store is Apple. I admire its elegantly simple design; it's clear visual graphics; its minimal signage (including pricing); no visible POS device; and extremely helpful, friendly staff (and lots of them). The Genius Bar is pure genius. And, for just $99 year when you buy a Mac, you have unlimited one-on-one training sessions on any of your iMac, iPhone, iPad, and iPod questions. Yes, the offering is higher-priced and there are no price promotions but such considerations are minimized by how Apple has uniqueified its stores.

The typical elements of uniqueness are price, offering/range, quality, service and services. Selecting the right combination that make you stand out and memorable is the trick. Of course, your uniqueness maybe your Justification pricing strategy as seen in Safeway's *just for U* program.

Or it could be your Muddification pricing strategy. Kroger, for example, uses lower-priced gas to uniqueify itself. Its store prices may not differ much from competitors but its uniqueifier is often a tiebreaker. Dorothy Lane Market, a legendary Dayton, Ohio upscale food emporium with great service uniqueifies itself with two muddification features: a points program that allows customers to buy a selection of items at crazy prices, such as bananas at 9¢ lb and eggs at 19¢ dozen, by redeeming a designated number of points; in addition, it helps customers build up their point totals by having three 10-point days each month on, of course, the 10th, 20th, and 30th. Without reminders or advertising (DLM does not advertise) customers appear and make these unique days high sales days.

Retailers in the middle need uniqueification the most; those that are neither low-priced in their marketplace or, apart from habit or location, offer no compelling reason to shop there versus the competition. These retailers have a choice: uniqueify or become cannon fodder in the next 20 years.

4. Communication

There are other ways to communicate with customers other than traditional print, radio, and television. Ask Costco, Amazon, or Apple stores. The simple question is who are you and why should people shop with you? Once decided, how best do you communicate that message, both in your stores and on a one-to-one basis?

My 20 years of looking at customer data tell me that it's the customer experience in our stores that has the biggest impact on our future. Food retailers, for example, have about 0.5% of their active customer base shopping their stores for the first time every week (whether they advertise or not!) Getting these new customers (as well as existing customers) to return depends more upon their experiences in your stores than from reading a lengthy, mind-numbing weekly ad.

So what do some of the creative leaders do to get customers to return? Using primarily email and the web, they invite customers to cookouts, demos, classes, and company events. Telling them, in minimal text, of special prices, of what's new in their store, and even of associates who have distinguished themselves. In other words, building a sense of community and understanding of who they are as retailers and what they represent. This, in turn, helps builds customers' trust, the most valuable but fragile asset each retailer has.

The Road Ahead

The next 20 years I expect will be tougher, competitively, than the past 20. This four-part marketing framework with its unified strategic coherence will help retailers achieve success. Integrating and honing our Muddification, Justification, Uniqueification and Communication framework will be key as we prepare for the marketing battles of the next two decades. All worthy of more research!

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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