A High-Octane Supermarket Loyalty Program

What is it about gas prices that make people switch from a more convenient gas station on their side of the street to one on the other where the posted gas price is 1-2¢ gallon cheaper?

by Brian Woolf (April 27, 2013)

What is hidden in our psyches that causes such behavior to save as little as 15-30¢ on a gas (a.k.a. petrol or fuel) purchase yet not on a grocery purchase?

No definitive answer has yet been offered by psychologists. That, however, has not stopped supermarket retailers from recognizing the power of offering pennies (adding sometimes up to dollars) per gallon in gas discounts as a strong marketing attraction to their stores.

The Traditional Gas Discount Program
The gas enticement is typically positioned as an appendage to a supermarket's existing loyalty card program (which offers lower prices to its loyalty card members). The most common gas offer is a 5¢/gallon discount for every cumulative $50 spent (as captured on its loyalty card). BI-LO in the Southeast, Spartan in Michigan, and Kroger across most of the US are just three of the many food retailers with such a program.

Supermarket retailers with a gas discount program state that it gives them a competitive advantage. Those without one often concur with that assessment.

One major downside to offering these gas discount programs, however, is its cost. Unless a retailer has its own chain of gas stations to help offset the discount cost, the retailer finds itself having to reimburse its gas chain partner all or most of the 5¢/gallon discount. This must be offset by increased store sales, increased grocery prices and/or retail cost savings.

The above template (with minor variations) has became the accepted prototypical model. Like these retailers I, too, was locked into that this mindset … until just recently. While in Kansas City, as often when traveling, I took the opportunity to visit supermarkets looking at their loyalty programs. One company's creative approach to loyalty marketing using gas discounts hit me with the force of Dorothy's tornado. Hy-Vee had turned the standard gas discount/loyalty card program model on its head!

A New Approach

The Hy-Vee store I visited was beautiful and busy. I looked around for signs of its special grocery prices for its loyalty card members. I found none. But I saw many shelf tags offering cents-off per gallon if you bought those items. I realized I was looking at a retailer that had eschewed the standard supermarket two-tier pricing loyalty card model, focusing instead on one that offered gas price discounts ranging from 1¢ to 10¢/off per gallon. To earn these cumulative discounts, all a customer had to do was, after signings up for a Hy-Vee's Fuel Saver™ card, was swipe it before paying for his or her order. This triggered the total gas discount earned on that visit to be added to his or her cumulative gas discount total. The discount earned was then shown on the bottom of the register tape together with the total of previous unredeemed discounts and the new total accumulated gas discount balance. Its loyalty program is that simple.

Hy-Vee, obviously, not only believes in the power of lower-priced gas as a customer influencer but has acted upon that belief by designing its loyalty program around it.

Each week, Hy-Vee's gas discount savings are advertised. Its 20-page weekly circular featured an additional 4-page pullout with the dramatic heading: *Save $2.66 Per Gallon!* The pullout offered 120 items grouped into gas discounts of 1, 2, 3, 4, 5, and 10¢/gallon. For example, Cheerios were featured at $2.98 plus earn 3¢/gallon and Blue Bunny Ice Cream was offered at $5.99 plus earn 5¢/gallon. Gas discounts on items priced as multiples varied with the number of items purchased. For example, Wrigley's gum was offered at 10/$10, plus earn 10¢/gallon; buying, say, just 3 packets, the price would be $3 and the gas discount would be 3¢/gallon. If you bought one of each of the 120 items featured, you would earn a gas discount of $2.66 per gallon.

The Essence Of Its Success

Now why is Hy-Vee's approach so ingenious? Three reasons: it appears to be a no-cost program; the common, costly temptation to offer gas discounts based on customer spending was avoided; and, it provides the same basic customer information to the retailer as a traditional loyalty card program.

How could it be it cost-free? The obvious way is by drawing gas discount items from the ongoing flow of Temporary Price Reductions (TPRs) offered each week by vendors. By presenting 120 of them as Fuel Savers (ie, gas discounts) rather than as traditional Temporary Prices Reductions would make it a zero-cost gas discount program. (Note: the program could be further enriched at no cost by converting several of the items planned as "specials" into the equivalent value as gas discounts.)

Let me illustrate. Assume a Peanut Butter vendor offers Hy-Vee a TPR of $0.50-off per unit in May. In week 1, Hy-Vee could offer it as a Fuel Saver of 3¢/gallon instead of lowering the shelf price by $0.50. [Calculation: assume a gas fill-up average of 15 gallons by Hy-Vee Fuel

Saver™ cardholders; 15 gallons x 3¢/gallon = $0.45, or almost the full amount of the $0.50 vendor credit.] In the following two weeks, perhaps the Peanut Butter is offered as a regular $0.50-off special, while in the fourth week it is offered again as a 3¢/gallon Fuel Saver. Alternatively, the Peanut Butter TPR could be offered as a 3¢/gallon Fuel Saver for the whole month of May.

Therefore, using this TPR approach (one that is used in other loyalty programs), even if Hy-Vee reimburses the program's participating gas station partners fully for the gas discounts redeemed, the program costs them nothing. In addition, the operating costs of the program are probably covered by Hy-Vee in two ways: (1) it operates a number of its own gas stations thereby boosting their sales and adding to corporate profits, and (2) Hy-Vee expires unused gas discounts 30 days after each discount is earned. (This expiration rate is the shortest I am aware of in the industry. The industry average has a 2-3 months expiration rate.) It would be fair to assume these expirations are not insignificant thereby adding back into profits these expired gas discounts.

Having said that, a tight expiration rate does not hurt Hy-Vee's Best Customers who shop several times a week quickly accumulating large discounts which encourages frequent gas redemption. It is also a great way to encourage split-shoppers to shop more frequently to accumulate more gas discounts before redeeming them. On the other hand, for the occasional customer with a Fuel Saver™ card, ie, someone who shops primarily elsewhere, it is an effective way to encourage her to shop more often but if she don't and hasn't accumulated much in the way of gas discounts, it's unlikely she will redeem the discounts which triggers the expiration of their 30-day unexercised gas discounts. In other words, the program is structured to give a valuable benefit to Hy-Vee's regular customers and, while offering the same benefit to its less frequent customers, its unlikely that many of them, although accumulating gas discounts, will earn enough to warrant their redemption, thereby triggering their expiration and providing a cost-saving to Hy-Vee.

The second key success factor of Hy-Vee's program is that it does not offer gas discounts based on each customer spending. The psychological attraction of a gas discount is strong enough that, by offering gas discounts when diverse items around the store are purchased, customers (nearly all of whom drive a vehicle or live in a household where someone does) readily sign up for its Fuel Saver™ save. The traditional program, which offers 5¢/gallon for each cumulative $50 spending, is expensive. For example, if the average customer gas redemption is 15 gallons, the discount cost to the retailer is 1.5% sales. [Calculation: 15 gallons x 5¢/gallon = $0.75; $0.75/$50.00 = 1.5%]. Obviously, this is not the retailer's real cost, due to customers not using their gas discounts, etc. But even if only 50% do, the cost is still, for a supermarket, a significant 0.75% of sales.] Hy-Vee has adroitly sidestepped this cost completely.

The third key element of Hy-Vee's Fuel Saver™ program is that it is a backwards way into gaining the same basic customer data as a traditional loyalty card program. As nearly all customers drive to Hy-Vee to shop, they readily sign up for a Fuel Saver™ card. Hy-Vee then captures their spending data when their Fuel card is presented. It is from this data that

Hy-Vee can not only measure its progress in building its customers' loyalty but can make under-the-radar individualized offers to its Fuel Saver™ members knowing how much each customer spends. It is a more flexible way reward its better customers in this stealth manner rather than overtly offering 5¢/gallon for every $50 spent.

Incidentally, in case any customer falls through the communication cracks, Hy-Vee proffers an on-going customer invitation to sign up to *save money and stay informed with our weekly specials and promotions — or keep up with new recipes and the latest health information — by having free Hy-Vee e-newsletters delivered right to your digital door*.

Hy-Vee is a $6.7 billion, 235-store chain operating in 8 contiguous states, anchored by South Dakota, Kansas, Missouri, and Wisconsin, and is supported by 1,200 gas stations (Hy-Vee Gas, Casey's, and participating Shell stations) throughout its market area. Hy-Vee is widely recognized for its excellence. This program exemplifies why.

Closing Thoughts

It's always a pleasure to discover creative new approaches in the loyalty arena. Hy-Vee's low-cost Fuel Saver™ program excited me. It has flipped the traditional supermarket loyalty card program with its cost-adding fuel discount program based on sales to a cost-free fuel discount program by transferring the cost to item-based vendor discounts. Another marketing approach has been added to our arsenal of options!

Retailers who operate a standard gas discount program will be wise to study Hy-Vee's model. Of course, it's not appropriate for every supermarket retailer … but's its mindset is. Looking at how something is done in the marketplace and then finding a simpler, less expensive way to offer it is the hallmark of excellence.

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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