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RETAIL STRATEGY CENTER

Fish … Where The Big Fish Are

"Fish where the fish are and, if possible, where the big fish are" … Garth Hallberg, author of "All Customers Are Not Created Equal"

by Brian Woolf (September 1, 2014)

The Cold Hard Truth

Newcomers to food retailer customer data usually get excited when they see the large share of customers with low spending figures and think "Wow! There's a huge sales-building opportunity right there." I was once one of those excited newcomers. Despite all my enthusiastic hopes and efforts, the cold hard truth I learned was that most customers who aren't spending much are usually not inclined to increase their spending with us on a long-term basis as they are, alas, in love with someone else … there's another retailer (or several) they prefer due to various reasons such as proximity, convenience, quality, selection, compatibility, or perceived value.

When trying to win someone's affection, it takes a lot of time and money to significantly change their thinking and behavior. When we start targeting offers to low-spending customers, we dream of them becoming good regular customers; in reality, we are inviting them to radically change their behavior. We are trying to increase their spending from, say, $20 to $60 week (which still leaves them with plenty of split shopping with others).

The Problem

The problem we have discovered is that to get customers to increase their spending with us 200-300% is difficult and expensive because of their loyalty and comfort with another retailer (or retailers). Our intention (which we most often overlook initially) is to radically change their behavior. This does not come either readily or cheaply.

On the other hand, building sales with offers to our Best Customers (those who spend over $50 week) is a much more profitable approach. Why? Because they already love us as shown by the apparently significant share they give us of their grocery budget. Moving their level of spending by 20-30% may give us the same sales dollar increase as moving the low spenders by 200-300%, and it can be done less expensively.

The above experience is based on many years of direct mail offers to customers. In recent years, with targeted printed offers while checking out and digital communications (email and mobile) commonplace, the cost to make individualized offers has fallen significantly. This has helped us in our customer wooing but it appears to have been offset by the increase in split shopping opportunities and customers appear to be spreading their favors more widely. Over the past 10 years, the worsening in new customer defection rates reinforces this.

What Can We Do?

First, we must replace the Share of Wallet mentality (ie, “they aren’t spending much with us so they have huge potential”) with a Customer Elasticity mentality (ie, “what are the different customer response rates to offers we make them?”). The former has us pushing a lot of water uphill; the latter has us going with the flow.

We have found that the response rate to targeted offers from lower-spending customers is a lot less than from Best Customers. This is because our Best Customers are visiting our stores more often and, therefore, more likely to redeem offers and because we are their favorite place to shop (or at least one of their top favorites).

So Garth Hallberg was right. It makes economic sense to focus our targeting efforts more on the Big Fish—but not exclusively. It’s still worth selectively casting bait at smaller fish to identify which might be more responsive to offers and, with cost-effective continued feeding, grow into Big Fish (Best Customers).

Both approaches rely on measuring the cost of the offers and customers’ response rates. The information gathered leads us to being more intelligent fishermen.

Fishfinder Radar

Now that we know that chasing Big Fish makes the most sense, we need a Fishfinder Radar to detect them. For us, that Radar is the preferred digital address of our Best Customers. The more we have, the better our Fishfinder! Good retail fishermen have the email addresses of over 70% of their Best Customers. These have been obtained over time with requests and rewards.

What Lures Appeal to Big Fish?

At this point, we know where most of the Big Fish are. But what's the right bait? Well, that varies with the different fish we are hoping to catch. To get you going, here are three different baits that seem to work well with most Big Fish:

- **Club Zero:** Find those department or category voids in Best Customers' spending and make offers to encourage purchases in that category. A simple offer of 10%-off any items purchased in the Zero category seems to make fish splash the water.
- **Individualized Spend Targets:** Offer a choice of 4-5 rewards to choose from (these may include items sourced from outside the store, eg, Grills or Knife & Fork Sets). They need not be free, but could be offered at extremely low prices. To earn a reward, Best Customers need to increase their average weekly spend by specific amounts over the next 8-10 weeks. As these targeted customers are our top spenders it can also act as a "thank you" reward and be priced accordingly.
- **Pamper Yourself Coupons:** Over the next six months, send two coupons monthly for "Indulgent Items" to Best Customers. As margins are usually very high on such items, discounts can be attractive. Indulgent items can usually be found in areas such as candy, bakery and wine. The sales of the Indulgent items are usually incremental. However, the offers' halo effect usually has customers increasing their overall spending.

The Bottom Line

Retailing is just like fishing. Knowing where the fish are and enticing them with the right bait is the name of the game. Those who catch the most Big Fish are those who win the contest!

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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