

Morrisons New Loyalty Program

Will Morrisons new Match & More card build profitable sales? Management hopes so: it's same-store sales were down 7.4% in the half year ending 3 August 2014...

by Brian Woolf (October 7, 2014)

The World's First Almost No-Cost Points Program

This month, Bradford, UK-based Morrisons is rolling out its *Match & More* customer card. Debuted by this 509-store chain, it is creatively designed: most likely the world's first-ever almost no-cost points program. How so? No points are offered to customers for total spending, a common (and expensive) point-program feature. Instead, points are issued when customers buy any of the "hundreds of featured items" around the store. The points on these items, one may reasonably assume, are fully funded by manufacturers because they are weekly specials that have been switched from price-off to points-on or are special long-term point shelf promotions.

The second primary way to earn points is when a customer with a *Match & More* card buys items at Morrisons that are cheaper at designated dominant competitors: Tesco, Sainsburys, Asda, Aldi, and Lidl. The largest comparative difference calculated is refunded in the form of points. As these price-difference rebates reflect corporate competitive pricing their costs, one assumes, are charged to their respective departments and not to the card program.

A third way, one assumes the only points that are funded by Morrisons, is the offer to members of 1p (10 points) per liter of petrol purchased in their petrol stations.

Each time a customer accumulates 5,000 points she automatically receives, when checking out, a Morrisons certificate for £5 (ie, each point is worth 1/10th of a penny).

Pricing Instability in the UK

As background, the UK's food industry's pricing tectonic plates have moved over the past year. The four food majors (Tesco, Sainsburys, Asda, and Morrisons) as a group, have lost market share to the two discounters, Aldi and Lidl, who have been enjoying strong double digit sales and profit gains. Customers are hurting economically and are stretching their budgets by shopping more often at the discounters. The majors have fought back. For example, Tesco and Sainsburys issue an instant rebate coupon for the largest difference found on comparable items

sold at the other majors, provided the customer has at least 10 items (about £20 in value) in her basket. But that move has not slowed Aldi's and Lidl's surging growth.

And now Morrisons has thrown a grenade into the game by announcing that with its new *Match & More* card it will give, on orders over £15 containing at least one comparable item, a price-matching rebate against not only the other majors but, more significantly, against Aldi or Lidl, too!

What's so dramatic about this is that Aldi, although selling mostly private brand items, has a comparable basket cost that is 22% less than Tesco, according to Nielson research, as quoted in the Telegraph (29 Sep 2014). For context, Morrisons' prices are similar to Tesco's and Lidl's are similar to Aldi's. The battle lines have thus been drawn.

The questions currently swirling include: Will the other majors follow Morrisons lead? Can Morrisons sustain the price and profit erosion implied in their program? Can they take on both the other majors and the discounters at the same time? (It seems like fighting on two fronts.) And what happens if the two discounters decide to selectively but dramatically lower their prices?

The raison d'être of such discounters is that they must be the cheapest, never equal, in price compared to the majors to maintain their marketplace differentiation. They cannot afford to have the current price gap they enjoy significantly shrunk. Morrisons have, therefore, launched a dangerous battle. Matching Aldi's prices against Morrisons involves less than 10% of Morrisons item range; the program is an expensive encounter for Morrisons. But, for Aldi, it may be life threatening. Aldi is being price-matched not just on 10% of its items but on almost 100% of them! Their total marketing point of difference is being attacked. For Aldi, as opposed to Morrisons, this is a do-or-die, locked-horns encounter and, in its mind, it has to win. No other option is acceptable.

It seems apparent that pricing instability will be around until the nation's pricing tectonic plates find a new equilibrium.

Pricing at Morrisons

Dalton Phillips, Morrisons CEO, told *Marketing Week* (11 Sep 2014) that their previous 3-month "I'm Cheaper" campaign was to regain customer trust and, further, that their recent shift to an EDLP approach means that "the price drops are permanent". Match and More indicates a continuation of that mindset. With this background, let's look at their new program through three lenses: the Positives, the Concerns, and the Question Marks, to better understand what might lie ahead.

The Positives

1. **Compelling reassurance.** Customers are reassured that whenever they buy the same or comparable items to those sold in five dominant competitors, Morrisons will match the lowest total of those prices. Trust-building reassurance is one of the most powerful emotional factors in marketing.

2. **Almost free points program.** Competitive price matching was already being forced onto Morrisons by the other majors; they just extended it. Their almost no-cost card program opportunity provides an inexpensive way to gather the data to understand and more intelligently market to their customers. This information, used wisely, is the key to their future.
3. **Simple and almost paperless.** Unlike Tesco and Sainsburys, where price-match rebates trigger a coupon in each transaction (meaning lots of paper with small rebate amounts), Morrisons accumulates the rebates until a meaningful total is reached. This is elegantly simple and extremely customer-friendly.
4. **Card is central.** With price matching dominating the UK competitive scene, using it as the vehicle for price-difference rebates places their *Match & More* card into the core of their merchandising, pricing and promotions, making it an essential part of the company's proposition, rather than as a tag-on fifth wheel seen in some other card programs.
5. **No card, no rebate.** Customers must bring and swipe their cards to check what price rebate they may receive on each basket. This reinforces, in customers' minds, that the Morrisons card has value.
6. **Best Customer focus.** Only shopping baskets of £15 upwards are eligible for price matching rebates. Customers with these larger orders are likely to be Morrisons overall Best (ie, higher-spending) Customers. Therefore, the price-matching costs go to customers who provide most of the company's sales and profits. Lower-spending convenience customers miss out; but they know that by increasing their basket-size they are able to participate.

The Concerns

1. **No way out.** By designing a program that guarantees equal pricing with Aldi and Lidl gives both the discounters and Morrisons no way out. Discounters must be cheaper than the majors; that's their primary competitive difference. My experience in competing with such discounters is not to equal them but ride them. Let them be cheapest, but by a smaller margin than at present, eg, some items 1% higher, others 3% higher, and the balance 5% higher. Then follow their prices up or down. With a narrower price gap, customers then have to decide whether the gap is wide enough to justify switching their shopping. Morrisons has chosen a path that does not allow this flexibility. If its new price matching program hurts Aldi and Lidl, one or both may react by lowering prices further, creating even more marketplace instability. If that happens, deep pockets will be required to stay in the game. Both discounters have deep pockets.
2. **Two fronts.** Discounters are the acknowledged UK low-price leaders. Wouldn't an offer matching only Aldi's prices scream the message that Morrisons is serious about low prices? This would be akin to Sainsburys recent price-matching switch to compare its prices against only one major, Asda. Morrisons, by challenging all majors and the two discounters, invites attacks from both sides. Further, by matching the prices of five dominant companies, isn't Morrisons left with a reactive, rather than proactive, pricing strategy? A strategy where it is not in charge but is at the whim of its competitors?

3. **Baskets of £15 upwards are eligible.** This will probably be an irritant to Morrisons Best Customers when spending under £15 and may make them vulnerable to attrition. It might also encourage Aldi or Lidl to announce: All our customers are welcome to enjoy the lowest UK prices, including all whose basket-size is under £15!
4. **Card name.** *Match & More* is a great card name in the short term as it describes the matching feature of the program. But, over time, as the program changes (and it will), the card name doesn't. Remember 7-11 stores featuring its original hours and Motel 6 highlighting its \$6 rate? They were mismatched names in the long term. A benign card name, such as the XYZ clubcard, providing better flexibility and redefinition over changing competitive circumstances would have been preferable from a long-term perspective.

The Question Marks

These are the questions whose answers, if known, would help us predict the situation 3-5 years hence:

1. **Acceptance.** Will the low-price prominence this program gives to Aldi and Lidl make it more "respectable" and socially acceptable for customers to shop there, thereby hurting the majors further?
2. **Extent.** How extensive will Morrisons price matching be? Manufacturer-branded and private brand merchandise only or will items in Meat, Produce, Deli and Bakery be included as well? In other words, how big will the pricing battlefield be? What share of Morrisons' sales will be at the pricing whim (including promotions) of competitors?
3. **Price Gap.** Will Morrisons continue with a large shelf price difference between themselves and the discounters or will they lower their shelf prices? It's a tricky path: the bigger the price gap, the less it will cost them because all baskets under £15 are excluded from price matching. On the other hand, the more points a customer receives the bigger the remainder of the pricing gap. Conversely, the lower the price gap, the fewer the points that customers receive making them wonder about the value of the card. [No one said marketing was easy!]
4. **Complicated vs transparent.** Why did Morrisons make each point's value to be 1/10th of a penny? It's unnecessarily complicated and doesn't fool customers into thinking they are receiving more value; it's more likely to confuse them. Why not a simple one point per penny? Instead of a featured item offering, say, 600 points, meaning the customer is receiving 60p off that item, why not an offer (at 1 point per penny) of 60 points? Why be complicated when you can be transparent? Simplicity trumps complexity every time.
5. **Cost.** What will it cost Morrisons in matching the lowest price of comparable items at five competitors: 1% sales? Or more? Obviously, the cost has to be material to give the *Match & More* card impact. Given that, can it increase sales sufficiently to offset the loss in profits experienced? Typically, a 1% sales cost hit requires at least a 5% sales increase to breakeven.

6. **Weekly Promotions.** Will Morrisons continue them? They have already stated they have an EDLP strategy (albeit with promotions). With their new *Match & More* card they are offering not just competitors' shelf prices but also competitors' promotional prices, too! Will this make Morrisons the "universal promotions" chain? Will it increase demand for competitors' specials thereby impacting Morrisons inventory ordering and other operational issues?

Summation

Morrisons disappointing past performance has pushed them into a proactive price-matching strategy: one that creates operational issues and may trigger a violent reaction from the discounters.

They have conflicting, inconsistent promotional strategies: everyone else's prices and their own EDLP and weekly promotions. A clarifying path is needed.

Ahead, a competitive battle is brewing where all major UK players need to increase sales to offset their price cuts and price matching— but they all can't win.

Morrisons mission is to build customer trust in them as a brand. Trust building does not occur overnight—but over years.

Furthermore, customers do not live by cards alone. No matter how enticing the *Match & More* card offer, when the customer is in the store what matters most is a combination of Selection, Quality, Value, Service, and Cleanliness: experiences that register on customers' "loyalty meters" influencing their attitude and return frequency.

Let's hope Morrisons have the patience, both emotional and financial, to see this creative challenge through.

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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,
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29607-3628
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