Longitudinal Loyalty

Time to reposition from Latitudinal Loyalty?

by Brian Woolf (April 20, 2015)

The retail food industry has been experiencing major changes, suggesting a rethink of how loyalty should be viewed. The changes occurring are reminiscent of the 1980s when traditional retailers were weakened by attacks on two fronts by Discounters and Category Killers. Recall how Sears, one of the greatest US retailers of the 20th century with its broad offering of something for everyone, was attacked with lower prices by discounters such as K-Mart and Walmart and deeper assortments by category killers such as Best Buy and Toys R Us? The combined attacks along with other factors, contributed to the decline of this retail giant.

Supermarkets, the traditional food retailer of recent decades, have been and continue to be attacked on the same fronts: by lower prices from discounters such as Walmart, Winco, Costco and Aldi, and deeper (or unique) assortments from specialty stores such as Trader Joe's, Whole Foods, Total Wines and PetSmart. This pincer movement has left many traditional food retailers with higher price levels and fewer competitive departments. For example, paper products and diapers, once supermarket draws for family shopping, are now often lightweight offerings. They are no longer "core draws" of many supermarkets as customers move more actively towards splitting their shopping. The one-stop shopping concept of the supermarket era is visibly declining. Nudging the decline along even faster has been the rise of powerful, wide-range, low-price Amazon and other appealing web retailers.

Loyalty in an Age of Split Shopping
The age of split shopping is summarized in supermarket statistics. Customer data routinely show that more than 70% of customers spend an average of less than $25 per week (shopping, on average, once every three weeks). In short, the actual shopping behavior of the customer majority tells us they are split shoppers.

Given these dynamics, I suggest we consider a broader view of loyalty as we move towards a world of longitudinal loyalty and away from a world of latitudinal loyalty. Longitudinal loyalty reflects a marketplace where customers are comfortably splitting their shopping among a favored group of, possibly, five supermarket-item-based retailers, the split reflecting the

respective core draw of each. In contrast, latitudinal loyalty describes the era of earlier supermarket days when one-stop-shopping was closer to the norm.

The challenge now for many food retailers is deciding how to hold and strengthen customer loyalty to their core draw (ie, vertical or longitudinal loyalty) versus the days of encouraging them to shop in every department as a one-store food shopper (ie, horizontal or latitudinal loyalty).

As a Retailer, Where Could You Start With This New Mindset?

1. Step one would be to draw from your last 4 or 8 quarters of customer data your customer profile; in particular, what percentage of your returning customers spent, on average, under $25 week in each of the quarters? Assess the magnitude of the split shopping that is occurring among your shoppers. Consider what would happen to your company's economics if the share of customers spending under $25 week got worse? Or got better?

2. Make a deeper than usual assessment of where else your customers are shopping and re-examine what comprises your core draw in your customers' minds and behavior.

3. Decide what to do with your weak categories (eg, eliminate paper products or replace them with a narrow unique or own-store brand) and how you could strengthen further the elements of your core draw (eg, how to feature them better and how to increase their customer purchase rate). An added element, of course, is to identify new core draw opportunities giving customers more reasons to return— and return more often. The more compelling and differentiated your core draw, the stronger is your attraction magnet in today's environment of split shoppers.

Accepting the reality of split shopping, you no longer have to try to be all things to all people. It's more important to have a clearly defined core offer that acts as a beacon in the marketplace, with your longitudinal loyalty mindset focused more on customers returning, rather than worrying about increasing their spending across every section of the store. (My research shows, counter-intuitively, that increasing customer frequency boosts a customer's average spending per visit.) In essence, accept that you won't be a one-stop shop for most customers, so push to be the preferred retailer in customers' minds in those areas you decide comprise your core draw.

Measuring Progress in a Longitudinal World
Taken from your regular customer quarterly data, three metrics are essential:

- **The percentage of customers spending less than $25 week**
  This metric, as explained earlier, will indicate over time whether the degree of split shopping is getting better or worse, a crucial economic indicator.

- **The average number of Best Customers (over $50 week) per store**
  This records the number of customers per store who spend a major part (over $50 week) of their food budget with you. Best Customers are your top regular customers who will be

increasing in number if your core draw offer is working successfully. They comprise approximately 15% of your returning customers and 60% of their sales. Changes in Best Customer numbers obviously impact the bottom line.

- **The year-to-year quarterly attrition rate of Key Customers (ie, those who spent over $25 week this quarter last year who didn't shop this quarter this year)**
  This metric is the combined attrition rate of your Best (over $50 week) and Potential Best ($25-50) Customers. A strong core draw should show an improvement in the attrition rate of this key customer base; a weakening core draw is usually reflected in a worsening attrition rate.

The Bottom Line
The supermarket industry began decades ago by bringing together the grocer, butcher, fishmonger, greengrocer, baker, and delicatessen specialist all under one roof. They are still there today, but fragmented specialization of their skills in more focused retail outlets is eating away at the sales of the one-stop-shopping supermarket. At the same time, extreme low-cost operators are enticing supermarket shoppers to split (or switch) their shopping to save money. Split shopping has created a group of competing retailers almost silo-like in nature, but focused on their differentiating strengths.

As a result, it seems time to start thinking differently about how we should view loyalty: longitudinally (or vertically) along with the silos or latitudinally (or horizontally) along with the old one-store-shopping ideal. It seems an appropriate time to heighten our focus on increasing our customer return rate rather than how to encourage a customer to shop in all departments. For if our customers aren't returning but shopping more elsewhere, wondering which departments they shop becomes moot.

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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