

The 3-Question Marketing Plan

Three simple questions to help you grow customers and sales

by Brian Woolf (May 11, 2015)

Why do customers shop at competitors instead of you? Apart from location, it's because competitors offer customers a better bundle of reasons. To build your customers and sales, ask yourself 3 simple questions.

What do you do to give your customers:

1. Reasons to Return (RTR)?
2. Reasons to Increase their Visits (RIV)?
3. Reasons to Spend More (RIV)?

An Example from One of the World's Greatest Retailers

Costco has 671 Warehouses in 8 countries generating average weekly sales per warehouse of US\$3.1 million. With two serious marketing limitations—no advertising and requiring a paid membership card to access entry—Costco has had to think very deeply about attracting and retaining customers. Its focus on the three R's of Loyalty Marketing is evident. All three are interrelated but each has a different emphasis.

1. Reasons to Return (RTR)

To have customers choosing to return to their stores, retailers need to provide them with a range of reasons. The stronger, clearer, and more different the reasons, the more customers choose to return. Here are some of Costco's reasons:

- **Earn back membership fee.** New and existing members know the savings they can make by shopping at Costco. They have a vested interest in returning to earn the fee (and more!) back during the year in savings.
- **Lowest prices.** Costco is committed to having the lowest prices on all they offer on a consistent basis. Because they sell packaged items in large sizes and/or multi-packs, the cost per unit (eg, per ounce) is usually materially less than at

regular food retailers. In addition, Costco has a maximum mark-up of 14% on every brand name item (ie, a maximum GP% of 12.3%). The 10.6% GP in their F13 reported results reflects this. High value offered is particularly noticeable in high margin categories such as Pharmacy. When a retailer negotiates the lowest cost and has an extremely low GP%, customers quickly realize it has the best prices in town—a compelling reason to return.

- **High quality.** Costco never sell “seconds”; only top quality. This is reflected in the quality-sensitive Fresh Department (Meat, Produce, Bakery and Deli) that generates over \$400,000 sales each week per Warehouse, all without advertising or promotions. It is the largest seller of fine wines in the world. In addition, the growing range of its high quality, great value, unique (ie, available only in Costco) Kirkland Signature private label items, which ranges from food and beverages to dry goods and clothing, adds to its strong value perception and acts as a powerful reason to return.
- **Signature items.** Certain items have become part of its customers’ mindsets, even if bought only occasionally. Three standouts include its \$1.50 Hot Dog & 20oz Soda offer, its 3lb \$4.99 Rotisserie Chicken (of which they sell, on average, over 2,000 weekly per warehouse) and its 2-dozen premium roses everyday for \$16.99. (Roses were seen in many orders on Valentines Day: without any advertising reminders, customers knew where to find the best value in roses.) Such image items reassure and reinforce the customer’s trust in Costco’s value and quality. As marketers know, the greater the trust the more inclined a customer is to return.
- **Guarantee.** Trust is strengthened with its Return Policy. Every product is guaranteed. Some products however, such as electronics, must be returned within 90 days to receive your money back.
- **Refund.** Trust is further enhanced by Costco’s belief in the value of its membership. It can be refunded, in full, up until the last day it expires!
- **Enjoy every visit.** Tasting the free samples of new items always adds enjoyment to every visit and provides an extra reason to return.

2. **Reasons to Increase Visits (RIV)**

Having customers decide to return is important; having them decide to return more frequently each month or quarter is even more important because there is a direct correlation between customer frequency and annual total spending. Not only that, the more customers spend the more likely they are to renew their membership. Costco has developed three major reasons for customers to increase their frequency of visits:

- **Treasure hunt.** To create a sense of excitement, urgency and a need to visit frequently, Costco continuously provides a flow of in-out items —buy now, it may

not be here next week! Finding these non-repeated, while-stocks-last offers creates a treasure hunt environment. Obviously, the more often a customer visits, the more “treasures” he or she discovers.

- **Coupon book.** A booklet of “clipless coupons” is mailed to members monthly (and is also available on-line). The strong coupon values are effective for 25 days in the coming month. Members need only present the item (no need to cut out the coupon) to receive the \$-off rebate for the coupon item. When the program began, it seemed that Costco was introducing “specials”, the antithesis of an every day, low-cost operation. But it proved to be a brilliant way to increase member visits as most of the attractive coupon items have rebate limits of 1, 2, or 4 items in one transaction. You can buy more of the item in the transaction at regular price, but if, however, you want to buy more at the rebate price, just visit more often in the 25-day period. It’s simple operationally for Costco: no paper coupons to handle and the rebates are processed automatically when the coupon items are scanned at the checkout.
- **Lowest-price gas.** In the US, most Costco Warehouses have an adjacent gas station, priced every day to be the lowest price among surrounding gas stations. Members have come to trust Costco’s consistently lowest price as indicated by Costco’s average gas station’s weekly sales of over \$500,000, which is more than 10 times the US gas station average! As vehicles are usually refilled weekly, this has proved to be a powerful driver of visits.

3. **Reasons to Spend More (RSM)**

Showing members how spending more saves them more, whether in a few or many visits, is Costco’s third area of marketing focus. It is seen in various ways:

- **Large Sizes.** Items are in large-sized packs to lower the cost per unit measure (eg, price per ounce). Likewise, in its Fresh Departments, such as Meat, the pack-sizes are large. This obviously increases the average selling price per item the customer buys but she realizes she is getting greater value this way.
- **Executive Membership.** Regular membership is \$55 a year for the primary cardholder. Executive membership (\$110 per year) comes with added benefits, including a 2% annual purchase rebate. Not only does it reward higher spending members but it encourages all Executive members to seek out other Costco items and services, such as its lower-cost insurance and travel offers. Executive membership works: the 38% members who are Executive spend more and their share of sales continues to grow.
- **Credit Card.** Costco offers a members-only, no-fee credit card that rewards increased spending at Costco: 3% cash back on Costco gas purchases, 2% cash back on Costco travel purchases and 1% cash back on other Costco purchases. Cash back benefits also accrue when used outside of Costco, eg, 2% cash back at

US restaurants and on eligible travel purchases, and 1% cash back on most other purchases. Many credit card holders' annual cash back total exceeds their annual membership fee!

- **Costco.com.** Costco's website features 18 diverse categories that include some in-store items together with many others that are available only on-line. In addition, these purchases are eligible for any appropriate Costco program rebates. This encourages value-oriented customers to "think Costco first" when shopping.

[Note: The above is taken from my paper "What Makes Costco So Successful?" which may be [accessed HERE.](#)]

Where Do You Go From Here?

Start by drawing up a list of your current differences (Reasons to Return) and a list of potential reasons that could be developed. Be prepared to change and even drop some existing practices as you clarify reasons why customers should not only return but also increase their visit frequency and total spend in your business.

Here are a few questions and suggestions to help with your quest:

- **Surprise Items**

What would be the impact if you reduced the size of your weekly advertisement and introduced off-setting, special low-priced "While Stocks Last" offers that could vary weekly (or daily) and by department? Customers will quickly get into the habit of looking for such value items on each visit thereby reinforcing their reason to return. Done successfully, it is likely to increase your customers' visit frequency.

- **Changing Your Thanksgiving Turkey Program**

One retailer I admire has, for the past 15 years, used its customer database each October to identify which customers will be mailed a certificate for either a free turkey, or \$25-off, \$20-off, \$15-off, or \$10-off. Turkeys are sold at full price in the stores regardless of competitive promotional pricing. The CEO's belief is simple: "I know who my loyal customers are so we'll send them certificates based on their past 12-months spending."

Customers now look forward to their annual turkey certificates knowing that the more they have spent in the past year the more valuable will be their turkey certificate. This knowledge has a subconscious effect on a customer: spend more during the year and I'll get an even "richer" certificate; spend less and its value will drop. This unannounced promotion acts subconsciously all year long both as a Reason to Return and a Reason to Spend More.

- **Meal Deals**

Various retailers around the country offer a Meal Deal each week. Some do an outstanding job with this program that provides customers both a Reason to Return and

a Reason to Increase Visits (ie, shop at least once a week). The best Meal Deal offerings have common characteristics: they are a substantial meal of great value; they are certainly something customers come back for; they are an important part of the store's offering and are always clearly displayed in the same area; and, if advertised, they are on the same spot of the same page each week. The retailer makes a clear statement that Meal Deals are important. It's could be described as a signature feature or a signature item.

- **Signature Items**

Costco offers its rotisserie chickens and roses as two of its signature items. What unique items do you offer that provide reasons to return? It is important that your signature items are different in size, quality, presentation or value from competitors to make them memorable. A signature item doesn't have to be the cheapest in price; it can be the most expensive. Feargal Quinn, the founder of the high-quality Superquinn chain, was so proud of his prize-winning sausages that he insisted they be the highest-priced sausages in Ireland. They were—and they sold extremely well—providing an added reason for customers to return.

- **Memorable Promotion Feature**

One of my favorite retailers, when relaunching its loyalty program, replaced its weekly advertising with an easy to remember, permanent promotion: on the 5th, 15th, and 25th of each month it rewarded members with quintuple (5x) points on purchases on those days. Its promotional intent was to capture (at least) three big customer spending trips each month on easily remembered dates and, while in the stores, enjoy the range of merchandise and in-store specials. For 19 years, the program has continued to be successful in providing at least three reasons for customers to return each month.

Closing Thoughts

The essence of marketing success is differentiation. Provide it; strengthen it. Customers come to our stores because we are different. The less different we are, the more we tend to be treated as convenience stores where our fortunes ebb and flow with our weekly ads.

One idea behind differentiation is that it's better to put a concept in a customer's mind than a circular in her hand: reasons to return, reasons to increase visits, and reasons to spend more are some of those powerful concepts.

For proof, just look at three highly successful retailers across the US who have clearly differentiated themselves with little or no advertising: Costco, Trader Joe's, and Whole Foods.

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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