# Some Loyalty Marketing Best Practices

***Ideas to help keep you ahead***

by Brian Woolf (May 18, 2015)

There are 3 primary reasons a retailer introduces a loyalty (or affinity) program:

1. To understand its customers better: who they are, how often they visit, how much they spend, how their sales fluctuate, what their behavior characteristics at different spending levels (including attrition rates) are, who are more responsive to promotions, etc. The next two reasons are based on this information.

2. To reward regular customers: expressing appreciation to its regular (ie, higher spending) customers in various ways, including prices and privileges, with the intent of saying thank you and reducing the attraction of split shopping.

3. To influence customer behavior: because behavior follows rewards, prices and incentives are designed to encourage customers to return more frequently and to increase their total spending.

The retailer has every reason to expect that sales and profits will grow as a result of having an effective loyalty program. Following certain principles and practices bring that expectation to reality. Some of the best are discussed below:

**Focus on Frequency: The Single Best Sales Driver**
With the advent of customer data, retailers around the world have discovered that an increase in customers' shopping frequency concurrently creates an increase (rather than a decrease) in their customers' average spend per visit, generating a double positive effect on sales. Therefore, continuity programs that encourage frequency are regular marketing feature of loyalty leaders. One leader has offered an almost continuous series of 8-12 week continuities over the past 18 years: "Receive a $50 gift certificate if you spend $45 (or more) in one transaction in 8 out of 10

weeks" may be followed by "Spend $40 (or more) in one transaction in 10 out of 12 weeks to earn an attractive roasting dish". The spending threshold of this company's continuity indicates it also cares about rewarding its higher spending customers.

For a fuller explanation, see **The Single Best Way To Increase Sales**.

**Remember The Law of Raspberry Jam**
"The wider you spread it, the thinner it gets" was a classic observation of Gerald Weinberg. You have so much markdown money to allocate each week and the wider you spread it the thinner it gets, ie, the less the customer "tastes" (the less impact you make). Ask yourself: which would be more impactful—a 1% price reduction across the board or a 20% price reduction on items that comprise 5% of total sales? The cost is the same (1% sales) but, for impact, the answer, of course, is the latter.

The lesson? When deciding promotions and incentives, make them memorable, let the customer taste them. Consider this question: is it better to offer customers a free Easter Ham if they spend $500 in a month or offer customers 2% off their accumulated purchases on various items such as Baby and Pet products (with a credit being issued when the category credit hits $5)? Which will they remember? Which will they act on? Will they even change their behavior if they sign up for the 2% programs—there is no time limit—but just keep turning up and buying those items when they need them as they did in the past? The message is clear: don't forget the Law of Raspberry Jam!

**Monitor One Critical Number**
Food retailing is moving towards an era of longitudinal loyalty where, monthly, customers may be shopping at five different competitive "silos" because of the different items, quality, and value each offers and they are "loyal" to each because of their unique offer bundles. (From personal experience, our family shops at two supermarkets plus Costco, Whole Foods, and Fresh Market every month and, at least once a quarter, at a vitamin store, an HBC store and Trader Joe's). We go back to each store for certain items that each offer. Each has a silo of unique items; thus the term longitudinal loyalty. We are no longer latitudinal loyalists (ie, rely on one food retailer for all of our needs). Having said that, apart from the destination items we buy from each, we are open to buying the rest of our needs from any of them.

Our shopping is an example of the split shopping impacting retailers today. It explains why the average weekly spend is under $25 for over 70% of most retailers' returning customers. And it highlights the need to monitor and build the 14-17% of your customer base whose average weekly spend is over $50 and contribute about 60% of your sales. These are the customers who have chosen to be loyal to you for their primary food offering. These higher-spending customers are crucial to your current and future success. They like what you offer, they visit frequently, and they have a low attrition rate. But they should not be taken for granted for they, too, are split shoppers—but just to a lesser degree—and are aware of competitive offers.

Therefore, monitoring the monthly year-to-year changes of each store's Best Customers (over $50 week) provides an advance indicator of your future sales. An increase in this core group with the lowest customer attrition rate means your distinctive offering is increasing its appeal; a decline means competitors are becoming more attractive to these core customers.

To increase the number of Best Customers, retailers usually focus on four areas:

1. Strengthening and adding to the "offer bundle" that makes you attractive and different in customers' eyes

2. Finding ways to recognize and appreciate your Best Customers, eg, while checking out, in the service departments, and seeking their thoughts and opinions in phone surveys

3. Targeting Best Customers whose sales are falling with calls and/or offers

4. Finding ways to offer better prices, free items, and other tangible rewards to your Best Customers

Best Customers are a retailer's gold; treat them as such.

**The Bottom Line**
The advent of customer programs, be they called loyalty or affinity card programs, has given us a rich understanding of customer behavior and dynamics we never had previously. To know the profile and economics of the different customer segments has allowed us to find and apply the appropriate levers to cost-effectively influence behavior.

In just three Best Practices, above, we see ways to gain more profitable customers and run our companies better. Yes, the above commentary only scratches the surface of discovery. The more you search, the more successful you become. How deep you scratch depends on how you answer this simple question: Are you a learning organization or an opinion organization?

# 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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