Measured/Loyalty Marketing And The Digital Age: Q&A With Brian Woolf

As the digital era changes the very structure of how retail happens, it's clearly time for retailers and brands to rethink their approach to loyalty and personalization...

By Bill Bishop Of Brick Meets Click (January 2017)

I recently interviewed Brian Woolf, one of the thought leaders in this area, to get his perspective on measured/loyalty marketing, on where progress is being made, and where to find opportunities for improved approaches like "valued customers."

If you don't know Brian Woolf, here's a quick introduction. Brian went into retailing in New Zealand right after graduating from college, and he learned by doing - working his way up from Accountant to CFO and from Store Manager to VP Operations under the guidance of the company's CEO - before he ever attended business school. That experience taught him three things were crucial to success in retailing:

1. The customer is #1. Look after her/him.
2. Do your homework. Make sure all new programs will make money.
3. Measure. Measure. Measure.

Bill Bishop: **You're recognized as a thought leader in retail loyalty marketing. When did first start working on loyalty?**

Brian Woolf: The first major report I wrote on the subject was in 1993, titled Measured Marketing, a Tool to Shape Food Store Strategy; Using Electronic Marketing to Create

Loyal Customers. The report was based on 6 months of research and took a financial approach to the subject of measured/loyalty marketing.

It generated some surprising findings:

- Stores were hemorrhaging customers - they lost more than 25% of their customers over a 12-month period.
- Customers were not as loyal as retailers had expected - 80% of their customers shopped in their stores less than once a week, even though those customers grocery shopped a couple of times a week.
- Top-spending customers are very important - the top 4% shopped 1.6 times per week at their store.

Looking at where supermarkets are today with measured/loyalty marketing, how would you grade the progress and where is the biggest opportunity or potential?

I'm pleased to see the majority of supermarkets are doing something in this area, but unfortunately most haven't made the switch to becoming completely customer-centric, and it seems to me that's hamstringing them.

From the beginning, supermarkets have been a mass market business focused on selling products and generating higher sales per store. Although many retailers have added customer metrics, the measurements that still drive the business are primarily related to products and categories - not customers.

Food retailers find themselves with "one foot in the mass market and one foot in measured/loyalty marketing," and that split is keeping them from getting the most out of their customer data.

I believe the area with the greatest upside potential in food retailing today is a much closer interplay of pricing and customer data; in other words, greater differentiated pricing (done subtly, of course).

Does this ambivalence limit retailers' ability to compete effectively?

Yes, especially when it comes to competing with Amazon. It's a significant vulnerability that limits their marketing effectiveness. Amazon's whole business is geared to personalization. They embraced the principle of measured/loyalty marketing from the beginning because they always knew who the customer was, and they focused on understanding what that customer wanted and then getting it to them. I think this is a big reason why many food retailers are challenged by competitors like Amazon who are naturally focused on the customer and their experience.

There are, of course, some exceptions. Kroger has been able to harness the power of customer data to drive their business forward. Kroger has also worked hard to take costs out, but the thing that sets them apart competitively is that they have built a strong culture where they use data to put "the customer first" in all the decisions about assortment, pricing, product presentation, and marketing to their customers.

You've talked about the importance of retailers differentiating among their customers effectively in order to get the most out of measured/loyalty marketing. Would you talk more about that?

While a retailer can always go further in terms of segmenting their shoppers, the two major segments are "Valued customers" and "Convenience shoppers."

- Valued customers generate most of the retailer's sales and profits.
- Convenience shoppers are a larger group but they do a lot less spending.

As we learned from the very first report on measured/loyalty marketing, the majority of customers are not as loyal as most retailers believe, and it's extremely important to take better care of the high-spending valued customers than the lower-spending, less frequent, convenience customers.

That's pretty straightforward, but what's proven difficult for most food retailers is finding a way to pay for the additional cost of rewarding and incenting the valued shoppers. Retailers are reluctant to take anything away from convenience shoppers and risk having them not come back, and they don't see where they're going to get the extra money from their valued customers. This dilemma has kept many retailers from treating their customers differently, and thereby getting the full value from customer data.

One path lies in more customer price differentiation - both transparent and opaque. Years ago there was no easy way to get differentiated offers into the hands of individual customers efficiently, but today digital technology gives retailers that ability.

Greater delivery efficiency helps, but that still leaves retailers with the question of how to pay for the higher value rewards.

Can you give us some examples of how retailers have approached paying for the benefits they extend to valued customers?

Here are two examples that are both effective but quite different in their structure.

The first comes from the late 1990s when I worked with the hard discounter DIA Spain. They had 10% of the Spanish market - 2,500 stores of 800-2,000 SF that carried 800-1,000 items at rock bottom prices and they introduced a loyalty card with two-tier pricing.

- The loyalty information gave them not just sales and frequency data, but also customer profitability.
- They used this information to give a special offer to each customer at the bottom of their POS receipt every time they visited the store that was based on the customer's frequency, profitability, categories purchased, and customer elasticity.
- The offers were capped each month, and top customers had a much higher cap than infrequent members.

The offers encouraged an increase in customer frequency as well as an increase in profitability. In fact, as a result, the head of the loyalty program was given responsibility for the company's total gross margin results as he refined his targeted differentiated pricing offers.

The second example is from Dorothy Lane Markets in Dayton, OH. They offer a number of year-round, crazy low prices available to all customers, but redeemable for points earned on total spending and on regularly featured in-store offers. The program is structured such that customers who shop more and spend more obviously gain significantly more value, while the company is able to readily manage the cost of the dramatic price markdowns.

Are there other areas where food retailers have the opportunity to improve their measured/loyalty marketing?

Yes. Providing financial incentives is always important, but it's also important to build stronger emotional connections with customers. Someone once said that emotion is the fast lane to the brain and I find that to be very true in loyalty marketing as well.

In most cases, the connection between a retailer and its customers has a lot of room for improvement, and raising the emotional content in your communications is one way to do that.

This doesn't have to cost a lot, but it means adopting a mindset where the retailer is "looking after the interest of their customers," including doing such things as:

- Scheduling special events that customers can attend.
- Offering better customers earlier invitations to special programs.
- Having store management regularly contact valued customers who have shopped recently to ask for their feedback.
- Forming a customer advisory panel.

These are just a few of the ways some retailers are improving their connection with customers, and in my experience, connection is a key factor when it comes to building customer relationships.

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.

The techniques and metrics Brian Woolf has developed have become guiding principles for those operating some of the world's most successful programs. He is the President of the Retail Strategy Center, and has consulted, and spoken at conferences, in the US, Europe, Japan, and Australasia.

Prior to his total commitment to loyalty marketing, his corporate roles included Deputy Managing Director of Progressive Enterprises, a major New Zealand retailer; and Chief Financial Officer of Food Lion, a leading US food retailer. He has an M.Com. (Economics) from the University of Auckland, New Zealand, and an MBA from the Harvard Business School.
