

## **Loyalty Marketing or Loyalty Selling?**

***This is the foreword from a special publication celebrating the 10th anniversary of Fly Buys (New Zealand), one of the world's leading coalition programmes, in which Brian Woolf explains why change is so necessary, yet so resisted...***

by Brian Woolf (November 9, 2006)

As we all know, loyalty is a very simple concept: does the customer keep buying from us in an environment where she has so many choices? Yet isn't it curious that only a few companies are known for their customers' loyalty? Looking around the world, we see part of the explanation lies within what are called loyalty marketing programmes. Some truly are loyalty marketing programmes; but many are loyalty selling programmes. Let me explain.

When I was at business school, I was introduced to the difference between marketing and selling. Marketing is the understanding of your customers' wants and needs and then satisfying them. Selling is getting the customer to buy what you have bought. Drucker once made the wise observation that if you market effectively, you don't have to sell!

Companies practicing loyalty marketing are recognized by their primary focus on gathering customer data to better understand and satisfy their customers' needs and measuring, through their customer retention rates, how effective their efforts have been. Companies who practice loyalty selling are recognized by their primary focus on using their customer data to sell more to them.

Costco and Tesco are two companies that exemplify outstanding loyalty marketing. US-based Costco, operating 433 mega-sized wholesale clubs in 8 countries, considers loyalty to be its scoreboard, not its kick-off. Costco measures its success by its membership card renewal rates. [To shop at Costco, a customer must have either its basic card (fee: \$50 year) or its benefits-enriched card (\$100 year)]. Costco achieves a remarkable annual renewal rate

of 86%! That's better than the retention rate of almost every free card programme. What does Costco focus on to achieve that stellar score? It's what the company is all about; the company is driven to give great value to its customers. To do that it must gain a great understanding of what its customers want - and then give it to them at the best value. It's a simple virtuous exchange: understanding and satisfying customers better than competitors - in turn, customers reward them with their loyalty.

Tesco achieves its renowned growth walking a parallel path. (UK-based Tesco operates 2,380 supermarkets in 13 countries.) The company's stated fundamental purpose for existence is "to create value for customers to earn their lifetime loyalty". It is no surprise that Tesco's CEO, Sir Terry Leahy, describes its loyalty card programme this way: "The goal of the Clubcard is to earn and grow the lifetime loyalty of the customer." Tesco is all about its customers - not just this week's sales figures but its customers' lifetime loyalty: a daunting, but highly motivating, goal.

Focusing on giving superior value to your customers by using your loyalty card to understand and satisfy your customers' needs and then measuring how well you are satisfying them (through their retention and spending levels) is what excellence in business and marketing is all about. In other words, to be outstanding at loyalty marketing you must be obsessed with the customer; you must have a customer-centric culture.

One of Tesco's core values, for example, is "to understand customers better than anyone." And it goes to great lengths asking customers what they think (and comparing that feedback with what they actually do); listening to their views; and acting on all of this. As a customer, wouldn't your loyalty to a company increase if it sought your opinion, adapted its offering accordingly, and gave you the best value to top it off? No wonder Tesco has doubled its market share, to 30%, in the UK over the past 10 years.

So why aren't more companies great at the art (and science) of loyalty marketing? One major reason is explained by the *Progress Paradox*:

*Everyone loves progress.  
Change is necessary for progress.  
Everyone resists change.*

Change conjures up thoughts of pain, fear, work, and uncertainty which, as human beings, we all subconsciously avoid. Yes, we love the end result; we just don't want to go through the pain of getting there. (Yes, we'd love to lose 5 kg; we just don't want to go through the pain of eating less and exercising more.)

It's my opinion that businesses who wish to survive in the coming decade have no choice but to change. They must find ways to offer greater value and they must develop a greater understanding of their customers. Our part of the world has become a mature marketplace. Rare are opportunities where there is a sales gold rush due to unfulfilled demand. Sales gains will predominantly be made through delivering greater value. Greater value comes from lower prices which come from lower costs. That involves change - and pain. Greater value will also come from better customer comprehension - and acting on that knowledge. Again, more change and pain.

Based upon my observations in different countries, having a superlative loyalty programme alone will not be enough for continued business success in the coming decade. Yes, it's critical to have one, but it must be complemented by a movement to lower prices/greater value in a world where pricing value will increasingly be dominated by value-driven global giants such as Wal-Mart, Tesco, Costco, Carrefour, Aldi, Ikea, and Home Depot. We live in a Western world where our real wages (and real spending power) are declining due to the active addition to the free-market, global stage of a third of the world's population (China, India and Russia). It's inevitable that value will be vital.

The challenge in the coming decade will be as exciting as the first, but different - putting customers truly at the core of our businesses, pushing ourselves to really understand them, thereby allowing us to provide them with the greatest value.

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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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