The Danger of Sameness

Loyalty programs are now table stakes for success. What's next?

By Bob Gatty

This is the first in a series of planned articles looking at retailers' loyalty programs. Installments in future issues are expected to focus on the technology behind the programs and the evolution of couponing.

Retailer loyalty programs have certainly come a long way.

Once the bastion of a select few supermarket chains — particularly those with the deepest pockets or the most tech-savvy resources — the average supermarket loyalty program had the sole mission of obtaining shopper-specific data in return for specific discounts on grocery products that shoppers routinely purchased for themselves and their families. Consumers produced their cards at checkout and watched as their total grocery bills ticked down.

But times have most assuredly changed for supermarket loyalty programs in the past two decades, during which time at least some sort of program has become an important, if not requisite, offering for virtually every grocery retailer that wants to stay afloat in today's increasingly difficult competitive environment — one in which shoppers now expect to be rewarded for their business.

Consequently, increasing numbers of supermarket operators across the nation now provide their customers with user-specific cards to obtain the best prices available, and perhaps some other goodies, too, which more often than not are in the form of discounts on gasoline.

But fuel incentives, say loyalty program development experts, may not be enough.

Bryan Pearson, president/CEO of Cincinnati-based LoyaltyOne, estimates that upwards of 80 percent of grocery retailers currently offer some form of loyalty program, about 70 percent of which are tied to fuel-based discounts.

Dis-loyalty?

Pittsburgh-based Giant Eagle has taken a nasty public relations hit as a result of its recent decision to cancel its "Foodperks" program, which offered discounts on groceries based on a customer's gasoline purchases at the company's GetGo stations.

The program, launched three years ago, ran in tandem with "Fuelperks" (10 cents off every gallon for every $50 spent in the store), and has been replaced with a 3-cents-per-gallon discount when customers scan their loyalty cards and aren't redeeming Fuelperks rewards.

Giant Eagle said its decision was made because the original program was complicated for customers, many of whom weren't realizing significant savings. However, a wave of harsh social media comments, including those on the company's Facebook page, begs to differ.

All of which ostensibly affirms the view of Bryan Pearson, president/CEO of Cincinnati-based LoyaltyOne, who advises retailers to think carefully when launching or adding new loyal program benefits: "It's essential when developing a new loyalty program to think through an effective exit strategy. That's good practice."

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"That's a lot of sameness," declares Kelly Hlavinka, managing partner of Colloquy, the research arm of LoyaltyOne, when noting that most of those programs "extend the exact same value proposition." In fact, as she wrote in a recent report, *Unfolding the Mobile Wallet*, "sameness" is a growing danger for the loyalty industry, and the grocery sector is no exception.

"Like frogs in a pot of simmering water, headed toward a dire and inevitable end because the warmth lulls them into not realizing they're slowly being boiled to death," she says, "the loyalty industry may be in a proverbial pot of hot water itself."

If what Hlavinka says is true, many grocery retailers' loyalty card initiatives are in fact not really an effective differentiator against the competition, but instead have an expected marketing component that simply allows the retailer to stay even against the competition.

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In effect, it's just what's needed to stay in the game, but not enough to win.

Pearson says a 2010 LoyaltyOne survey showed that American households were enrolled in more than 2 billion loyalty programs, with the average American belonging to about 18, although active in only 8.4. In the grocery sector, there were some 174 million memberships, a figure that had increased 28 percent from 2006. Today, Pearson estimates that number at about 200 million.

Along Comes Technology

The loyalty derby is clearly gaining in complexity. As consumers become increasingly savvy about loyalty programs and how best to benefit from them, even as they become more adept with, and dependent upon, technology — especially their mobile devices — the quest for strategies and tools to help shoppers save both time and money

Advice for Loyalty Marketers

Kelly Hlavinka, managing partner of Colloquy, the research arm of Cincinnati-based LoyaltyOne, says there are four "game-changing" opportunities for tomorrow's enterprising loyalty marketers. In a recent report, *Unfolding the Mobile Wallet*, she offers the following tips:

1. **Exclusivity:** If your customers can get the same deal from competitors, they have no special incentive to come to you, or to stay with you. What role could exclusive partnerships play for your audience?

2. **Experiential rewards:** Things can be duplicated. Experiences can't. If your reward is a discount or an item, your competitors can duplicate it. If your reward is an experience — insider access to behind-the-scenes encounters, or aspirational adventures that only you can provide — your competitors can't match you.

3. **Relevance:** Using the data you already have to tailor messaging and offers to your most important customers will build a future-facing asset. That's the bottom line for loyalty programs: *What are you really doing that will stand out above and beyond your competition?*

4. **Innovation:** Someone at one company in each major industry vertical is finally going to embrace differentiation and think, "The one asset we can claim is our brand. Let's get smart about bringing that brand to life in the rewards, recognition and relevance of a differentiated program."

Best Practices

Hlavinka and Jim Sullivan, a partner at Colloquy, in the company's *2011 Loyalty Census* report, provided these best practices "to get in front of that crowded wallet":

- **Invest in the members you have.** Invest in a multifaceted communications strategy that optimizes the number and variety of communications channels, ensuring direct, relevant connections with the most valuable, highest-potential customers. This must include social media.

- **Break down silos.** The use of data insights is now table stakes in a saturated loyalty environment. Marketers should use their insights from customers to customize the experience delivered for their best customers' rapidly evolving needs, from e-mail inboxes to the layout of stores and the merchandise on the shelves.

- **Pursue innovative value propositions.** Strategic alliances offer the ability to join forces with other companies and create richer, faster ways to earn rewards and status.

is uppermost for all retailers these days.

Microsoft recently reported that half of all Web searches are performed on mobile devices, and predicted that mobile Internet usage will overtake desktop usage by 2014. As such, the pressure on supermarket operators to deliver not just an effective loyalty card discount program, but also one that makes shopping easier and faster, will intensify. Both Pearson and Hlavinka agree that next-generation programs will require much more than mere discounts for gas or groceries.

"More mature and sophisticated players are using the customer information generated through loyalty programs to drive relevant communications to the consumer," Pearson says, giving props to Pleasanton, Calif.-based Safeway for its new "Just for U" initiative, which allows customers to receive digital coupons on their club cards, specials to help plan shopping, and personalized deals based on previous purchase history, as well as offering participants the opportunity to learn about sale items while shopping in the store.

"Companies are trying to move from broad, sweeping platforms to personalized platforms for their offers," notes Chris Lybeer, VP/GM, marketing and mobile solutions for Duluth, Ga.-based NCR Corp. Citing The Kroger Co.'s loyalty program allowing customers to download coupons directly to their cards from its website, with the savings added when the card is swiped for payment, Lybeer commends Kroger for being "a leader in this space. If you are an above-average ice cream buyer, you will get [relevant, meaningful] offers for ice cream."

But it's not necessary for a company to be an established powerhouse in the loyalty domain to provide such a service. NCR in January revealed that Janesville, Wis.-based Woodman's Food Market, with 14 stores in Wisconsin and Illinois, has launched NCR's Mobile Shopper system for its Madison, Wis., store. If plans pan out, based on the Madison experience, the regional retailer will potentially deploy the technology at its other locations.

With Mobile Shopper, customers use their own iPhones and a Woodman's app to create virtual shopping lists before going to the store, and then scan items as they shop, go to a self-checkout station (SCO) and scan a QR code on their phones to transfer their mobile shopping information to the SCO for payment.

Listen Up

On another front, Daymon Worldwide has launched Be Heard, a loyalty and payment

platform offering retailers and suppliers a way to engage customers in real time, and also avoid credit and debit transaction fees. The system delivers a one-card and mobile option to add and redeem coupons, receive targeted offers, earn loyalty points and pay for purchases, according to Carla Cooper, CEO of the Stamford, Conn.-based company.

"Not only have our retail partners been hit hard by bank-card processing fees, they are actively looking for ways to differentiate themselves in the minds and hearts of their customers," says Andres Siefken, Daymon chief marketing officer. "This one-of-a-kind technology platform helps retailers interact with their customers in meaningful ways, while adding significant dollars to the bottom line."

Rather than handing customers coupons after checkout, Be Heard enables real-time, targeted offers to be sent directly to customers' loyalty cards or mobile phones while they're shopping. "The Be Heard engine sends back all shopping cart information immediately, so retailers can use it to strengthen their customer relationships by deepening their customer knowledge," Seifken explains.

Going Beyond Discounts

Strengthening bonds with shoppers, says Loyalty-One's Pearson, is essential if companies are to go beyond simply providing discounts and establish a real competitive advantage. "A good loyalty program needs to reward not just in the moment, but over time. That's how you build a sustained purchasing activity from the customer," he explains, pointing out that a discount program that simply provides cents off a gallon of gasoline is nothing unusual and doesn't provide a lasting experience or memory.

With the increasing price of gasoline and the stagnant economy, it's easy to understand the popularity of discount programs, especially those that offer discounts for gasoline based on grocery store purchases, Pearson acknowledges.

"Anything that feels like you're beating the system resonates with the customer," he says. "They know they can get their value back. But the problem is that these programs can easily be copied, and so you can lose your competitive advantage. The real opportunity is in how you use the data and how you think about differentiating the value and the incremental experience that you bring to the customer. That is how people will win in the long run." **PG**