

# Advertising Age®

## The Big Payoff

**Customer retention is the mantra, but marketers quickly appreciate you have to win them and keep winning them over and over**

By James Tenser

*Published:* March 20, 2006

Loyalty marketing is single-handedly responsible for the billions of plastic cards jamming Americans' wallets. It's also spawned dozens of pop management books and created a whole industry of consultancies and application developers that specialize in helping brands identify, cultivate and persuade loyal customers.

There is a proliferation of card-based and Web-based programs designed to segment customers into behavioral or value groups and deliver incentives and discounts. The programs are widespread, if not universal, among airline and supermarket operators and many other customer-facing businesses. In the airline industry alone, 160 million people in North America belong to at least one loyalty program, according to Randy Petersen, editor of InsideFlyer magazine.

"In our world there is much more buzz, talk and trade and consumer press about loyalty programs and loyalty marketing," says Spencer Hapoienu, president of database marketing agency Insight Out of Chaos, New York. "That is slowly encouraging companies to become more serious about developing full and committed loyalty programs."

### MILLION-PLUS QUICKLY JOIN

John Schmidtke, director of loyalty marketing at True Value Co., Chicago, says its card program, True Value Rewards, has attracted 1.1 million customers since it launched in 2003 with a pilot program covering 20 stores.

Presently, 435 independently owned member stores have signed up for the program. The hardware co-op regards the cards as a key strategic defense for member stores vs. the bane of their existence, the big-box home centers. Participation by member stores is voluntary, so True Value has to make it pay off.

Insight Out of Chaos, which specializes in managing customer relationship programs, including loyalty and preferred customer programs, designed the program for True Value. The cards identify shoppers, feed a database and permit individual store owners to select and target direct mail ads to match local market conditions. "We're racking up consumer insight data very quickly," Mr. Schmidtke says, adding, Insight Out of Chaos "is charged with helping make sense of the data for the store owners—they are merchants, not data analysts."

One reason why loyalty programs are so popular is that many experts link loyalty to profitability and brand equity. Consumers are invited to sign up, earn membership discounts and accumulate points, miles or other incentives. Loyalty programs rely on cards, direct mail and e-mail to create a relationship that will trump competitors' everyday low prices and create habitual patronage among our most valuable customers.

"Thinking that you can capture 100% of your customers' loyalties is 100% not realistic. That's not meeting your customers on customers' terms," says Gail Sneed, director of strategic consulting at Maritz Loyalty Marketing, St. Louis. "You do not acquire them. You have to win them and keep winning them over and over."

Estimating the scope of loyalty marketing is difficult, but Mark Goldstein, CEO of Loyalty Lab, San Francisco, argues a huge proportion of customer transactions in the retail, services and credit card industries are "card-centric" or database-connected. "Say that 100% of club-store sales fit that definition, 100% of catalog and 65% of e-commerce sales," he notes. "Perhaps 85% of airline passenger transactions and half to three-fourths of supermarket sales would qualify. Counting the purchases made by holders of reward-enabled bank credit cards pushes the loyalty tally into the hundreds of billions of dollars."

Considering the sums presently being invested in loyalty marketing, there's a hard reality for marketers to confront, says Eric J. Arnould, a professor of retailing and consumer science at the University of Arizona.

The problem, Mr. Arnould maintains, is that marketers "typically ask, 'What does the customer care about my firm, my ad, my program?' When instead we ask consumers what they care about, we learn it's their children, their spouse, personal goals and aspirations, God. ... Brands and stores come way, way down on the loyalty priority list."

Part of the problem lies in distinguishing between buying behavior and the relationship felt by the consumer toward the brand.

"There's a big difference between loyalty and the satisfaction and buying behavior of customers," says Ms. Sneed. "Some customers may repeat-buy, but that may not mean they are loyal to that brand. It may not be a matter of choice. It may be a matter of convenience or lack of an alternative choice."

"Loyalty marketing has gotten pretty far off track," observes Frederick Reichheld, director emeritus and fellow at management consultant Bain & Co. and author of several loyalty books going back to "The Loyalty Effect" in the mid-1990s. "I've been frustrated that a powerful concept and powerful tools that could have brought the loyalty proposition back into the center of the strategic dialog has instead become hijacked by promotion programs."

Mr. Reichheld has just released "The Ultimate Question" (2006, Harvard Business School Press), which equates customers' willingness to recommend a brand with a marketer's economic success and proposes a fairly simple "net promoter score" metric, based on the simple question, "Would you recommend us to a friend or family member?"

## MAKE IT MEASURED

"Frankly I don't even like the term 'loyalty marketing,'" says consultant Brian Woolf, president of the Retail Strategy Center and author "Loyalty Marketing, The Second Act" (2001, Teal Books). "In the retail world where a card is used, I much prefer the term 'measured marketing' because the loyalty card is really an identity or measure card. Maybe it should be called a 'We-want-to-know-you' card."

Grocery store loyalty programs are among the most common, and more than half of all grocery store customers are signed up for at least one loyalty program, according to a recent McKinsey & Co. report. Mr. Woolf points to Tesco in the U.K. and Big Y World Class Market in the U.S. as the most-admired chains in this sector.

He calls Big Y "the Crazy Eddie of promotional pricing." Eight times a year its runs a buy-one-get-two-free promotion as a reward to card holders. "The event brings people into the stores from all over."

Mr. Woolf calls the chain exemplary in how it uses accumulated shopper data to build business. "Every week they download cardholders' numbers to the registers. Then the checkers give gold, silver, red, or blue tokens to different shoppers, or none at all."

The tokens serve as an alternative currency for redemption at Big Y or at participating local businesses such as car washes or dry cleaners, he explains.

"There's another magical thing Big Y does six times a year. The top six executives of the company sit down in a room with one agenda item: 'How can we make our loyalty card program even better?' Part of their corporate strategy is making the customer more satisfied."

But as loyalty programs flood the market, marketers are learning more about what incentives really motivate them. "Loyalty marketing's approach has always been about rewards and incentives," observes Kevin King, VP-interactive solutions at Edelman, New York. "We always taken the position that content is really what people are most interested in."

rss feeds

Mr. King's group at Edelman works to derive insights from consumer buzz online that can reveal what people really think about a brand. The lessons are applied toward the creation of more relevant Web site content, such as FAQs that reflect consumer concerns and interests. Mr. King says Webcasts, podcasts and RSS feeds are proving valuable and economical tools for marketers to maintain communications with known customers.

"Even five or six years ago these programs were very hard to implement," he says. "They were expensive, and required lots of custom technology. Now it has become pretty easy to use third-party systems to create and distribute them."

"It's not about segmentation. It's customizing the experience," says Michael Lowenstein, VP-senior consultant at the customer loyalty management research practice of Harris Interactive.

Handling data doesn't come cheaply, he says, citing estimates it can cost up to \$30 million just to set up a world-class loyalty program. Citing the McKinsey study, Mr. Lowenstein says marketers should expect yearly maintenance costs of \$5 million to \$10 million. "Just to break even, that requires a store-by-store increase of 6%."

But Mr. Woolf believes that the cost is well worth the investment.

"When I'm asked by company, 'Do we need a loyalty program?' I usually respond, 'That's the wrong question,' he says. "The right question is, 'How can customer information help you achieve your corporate and strategic objectives?'"

Copyright © 1992-2007 [Crain Communications](#) | [Privacy Statement](#) | [Contact Us](#)