



## Is Your Card Program a Customer Loyalty Program or a Customer Requirement Program?

By Mark Heckman

Most retailers that have ventured into the tempting waters of frequent shopper programs would probably argue that their card programs are working in “high gear.” Interestingly, when these retailers are asked if their program is prompting loyalty within its card holders’ base, they would likely say,

*“Absolutely, our card holders spend more and shop more frequently than non-card holders!”*

They might even cite results from a recent direct mail promotion that revealed incremental spending post the promotion. Another common metric usually involves bragging about the high percent of sales that are transacted on the card, versus non-card transactions. If that isn’t loyalty...what is?



Although I hate to rain on this somewhat delusional parade, the reality of customer behavior offers a different explanation. It goes something like this:

When you require your shoppers to use a card to get your discounts, your best shoppers, who tend to be “full basket shoppers” are going to use the card. Consequently your card holders are always going to skew towards your best shoppers, ergo your card holders will always spend more than non-card holders.

Secondly, the fact that a group of shoppers responded in the short term to a promotion prompted by the card simply means that good promotions of any genre will result in positive results. Neither have anything to do with loyalty. **In fact, it is more than likely that your best spending shoppers in your card program, would still be your best spending shoppers without it.**

One prominent retailer actually cited consumer research prior to launching their card that indicated shoppers would spend more if they had a frequent shopper card. Now that may be true if the resulting database is actually used to create “loyalty” through special recognition and unconditional rewards, iterative communications, etc., or even if the discounts they receive were above and beyond the normal run of TPR’s that they received prior to the card launch. But that is not the norm for most supermarket programs today. Unfortunately, “Customer Requirement Programs” are much more prevalent today than **Customer Loyalty Programs**.

So let’s stop kidding ourselves about what’s driving card usage and incremental spending. Without the card, shoppers are on the outside looking in. They **MUST** use the card to get the deals. Is that really a demonstration of customer loyalty or rather evidence of customer’s responding to a requirement? **Sadly, most programs today do not engender loyalty, if they did, you wouldn’t see four or five other competitors’ key fobs on the customer’s key chain when they checkout.**

In fact, the commoditization of frequent shopper programs makes it less likely that your card is doing anything more for you than providing electronic discounts to the same customers that would rather go back to the conventional non-card TPR program.

The distinction I have identified is not just semantics. Customer loyalty, (not customer requirement), was the end game of all of these programs in the beginning....and for good reason.

Why? Let's refresh our memory to the principles that were so eloquently cited by Brian Woolfe and others in the early days of these programs.

- Loyal customers spend more without the incentives of promotion or price reduction, and actually advertise for you by telling their friends how wonderful you are.
- Conversely, customers who use the card from a sense of requirement need constant "bribing" to keep them from defecting to another customer requirement program that might have better deals in a particular week. *Mr. Woolfe actually referred to this concept as "promoting promiscuous customers."*

Further motivation for engendering loyalty with your program is the undisputable fact that maintaining a customer data base is expensive. I don't know of a single retailer who invested in their card program *just to require their customers to use a card to get discounts*. In fact, if I were a retailer today that was considering the investment of a card program, I would have a tough time justifying the "payback" given the predominant working models in the marketplace today!

### There are No Silver Bullets, but.....



Graduating from a program whose dominant feature is in-store discounts and electronic promotions, to a program that truly represents a competitive advantage requires a new mind set and a commitment to providing meaningful and relevant communications to special groups of card holders.

Most of us have figured out that we don't have the horsepower or the financial means to send direct mail to all of our card holders on a regular basis. The emergence of electronic media has mitigated the expense of direct communications somewhat, but the essence of loyalty programs rests in creating groups of special customers who become so pampered and nurtured, that they can't wait to rip all of your competitor's key fobs off their key chain! They become the standard to which everyone else aspires!

So how do we make that happen? Truly the adage "There are no Silver Bullets" is alive and well. But there are some tarnished bronze bullets....and I offer a few suggestions as to how to change the mindset that will help you move your program from a "customer requirement program" to a "customer loyalty program."

#### **Bullet # 1: Identify a group of customers who are vital to your business and build a wall of recognition around them.**

Said another way, you should regard your relationship with even your best shoppers as a temporary situation....not "mission accomplished." Nobody has an absolute lock on their customers. Retailers should accept the fact that their best shoppers are constantly being targeted by competition and are potentially one competitive offer away from defection.

Too many CRM programs in the supermarket industry are seemingly afraid to overtly reward their best shoppers at the risk of alienating those that are not. While I understand the concern of alienating some shoppers, my experience tells me that the retailers, who have not been shy about best customer recognition programs, have the best programs.

Smart marketers can surely define a benefit package for those shoppers who have earned their way into VIP status. Many of these benefits do not require significant additional expense. Solicit ideas from your store-level cadre as to what value-added benefits and rewards can be assigned to this group just by showing their VIP status card.

**Bullet # 2: Do not treat your communications to your Best Shopper Group in the same manner you do your mass promotions.**

If the Best Shopper Group is spending \$450 a month in your stores, the knee-jerk reaction is to send them a promotion that rewards them if they spend \$500 a month. Surely they can spend another \$50! Clearly, these conditional rewards have a place in your communications strategy, but with this group make sure you have rewarded them for what they have already done, before you ask for more. Surprise this group with “pre-earned” rewards. More often than not, this group will get to \$500 a month on their own.... if you follow the premise of the first bullet and pamper these folks!

**Bullet # 3: Provide a clear path for the rest of your shoppers to become a Best Shopper.**

The airlines do this the best. How many times have you been guilty of “first class envy” as you board an airliner, struggling down the narrow aisle with brief case and bags...while those seated in first class are sipping their second glass of champagne? My first response is, “How do I get in the leather seats?”

The concept is the same for supermarket loyalty programs. Subtle reminders to shoppers as to how they can achieve the next level of benefits are not out of the question. Many of us, who shop several supermarket card programs, never have received the first bit of personalized communication welcoming us to the programs and outlining a benefits package as we march through the ranks of customer engagement.

Develop a clearly stated program for your card holders, so they are abundantly aware that they get “X” if they do “Y.” Remind them as to how close they are to the next level. Think about your program and those in your marketplace. How many of them actually chart a path for card holder participation?

In summary, your Best Shopper Group should be the life-blood of your CRM program.

- Don't forget about them. (Some retailers believe this group will grow old in their stores without recognition.)
- Make a commitment to this group and budget sufficiently in order to dialogue with them numerous times throughout the year, not whenever the mood strikes or sales are down.
- Recognize them for what they have already done, not what more they might be able to do.
- Create ways they can talk to you and listen when they speak!
- Build a program with clearly defined benefits, so shoppers know where they stand and what they need to do to reach the Best Shopper Group.