

# A question of loyalty

Retailers can utilise the benefits of both loyalty and customer relationship management programmes to gain a valuable insight into their businesses. However, Scott Thompson finds that only a small number of UK companies are currently doing so

Some retailers have enjoyed considerable success in the loyalty card market. Half of all UK households, for instance, now possess a Nectar card with which they collect points on their everyday shopping. It has grown from four launch partners to 16 companies issuing Nectar points nationwide, providing a

high street presence at over 6,000 outlets.

"The key thing we believe is that a loyalty programme is there to provide an insight in to the business rather than rewarding card holders. And the successful retailers are the ones who recognise the difference of adjusting their product lines compared to those who merely issue reward points," says Mark McMurtrie, marketing director at secure information and transaction specialists, The Logic Group. "So it's all about shifting the focus to the business benefits and how they can tailor their offer, rather than purely issuing points or pounds to customers who may already be loyal to the brand."

At the same time, McMurtrie states that only a handful of UK retailers really understand the true purpose of a loyalty programme, and they have utilised this knowledge to gain a significant competitive advantage.

"But still most people think about it from the

card holder perspective and they are the ones who are not going to be winning. The successful businesses are those that view it in terms of how they can change their offer to customers in order to make sure that they increase their spend. This all comes from really getting inside of their customers' heads and satisfying their needs and desires."

Richard Smith, group managing director at software developer/supplier, PCMS, notes that traditional retailing left little scope for the ability to get to know the customer – apart from exceptions where warranties and service were being sold, leading to the accrual of information such as income stream, residential location and family size. Yet these incidences were the exception rather than the norm. "That picture has changed and the era of information overload is with us. And a lot of that information stems from loyalty schemes – good examples will have constant interaction with the customer. Indeed, every time there is interaction between



retailer and consumer, a picture should build of retail patterns," he says.

"This will give an extremely accurate view of what is happening out in the marketplace and offer early signs of changing trends, giving the retailer the chance to alter its market offer more quickly and earlier in the cycle. The ability to respond quickly becomes ever more vital as the marketplace dynamic continues to move so much more quickly than it did even just ten years ago," he continues. "If a retailer sees loyalty as being about simple discount schemes, that organisation is missing the point completely. If the value of a scheme lies only in discounting and loyalty, it will inevitably run into trouble when it comes to building an argument for its advancement, expansion and continued use. Perhaps there was a halcyon period for loyalty in the seventies, when reward and practicality bred the undivided attention of the consumer. But not anymore. Never, ever go into a loyalty scheme looking for, well, loyalty. It simply doesn't happen anymore."

#### No room for complacency

Today's customer is confronted with a frequently bewildering range of offers, promotions, coupons and loyalty programmes. If executed in the wrong way, throwing yet another loyalty card in to the mix can only add to the confusion, resulting in a flurry of junk mail and spam for the customer and a system that provides the retailer with inaccurate data. This has, unfortunately, been an all too common occurrence over the years.

Those in the anti-customer relationship management (CRM) camp focus on the many companies who have hurled huge sums of money at poorly conceived, badly managed systems. Then there is the argument, backed up by soon to be released research by Deloitte, that the majority of shoppers shop where it is most convenient to do so.

Retail loyalty, the theory goes, is less to do with loyalty and more to do with low prices and which store dominates the high street or is closest to home. Did Tesco, for instance, conquer the world because customers love the supermarket giant and are inherently loyal to it? Or did it achieve dominance by snagging all the good sites, leaving local shops and rivals in its wake?

An online ad, launched by Friends of the Earth in July and reflecting the media fashion to slam Tesco as a relentless machine, leans towards the latter option by focusing on "the destructive effect that it has on local shops" and highlighting a recent GfK NOP survey which shows that almost half of the public (43 per cent) in the UK would oppose a new Tesco store in their area while only a third (33 per cent) would welcome one.

"It is true to say that many retailers have examined the burgeoning loyalty market and decided that the sheer level of investment is not outweighed by the benefits of customer contact; nor have loyalty schemes necessarily significantly been shown to always increase drives in footfall," says Fiona Ghosh, partner at international law firm Eversheds. "However, from a legal and a corporate perspective, a well structured and maintained customer database will be a valuable asset both in terms of exploitation and potential sale. Intellectual property rights in both the database structure and the customer list can be the crown jewels of any retailer or consumer facing organisation, especially in online operations."

Professor Merlin Stone of Bristol Business School and director of The Database Group and Nowell Stone, points out that the aforementioned criticism of retail loyalty is not new. Today, however, most people have a choice of two or more large stores conveniently nearby, and this is where cards and CRM can help matters. "But it's not just having the card – it's also astute use of data that targets customers known not to be concentrating their spend and encouraging them to do so by buying specific product ranges," he stresses. "Also, the data from the loyalty card is used in all sorts of other marketing ways – to cross-sell financial services and so on."

Stone, a leading expert on direct and relationship marketing, customer care, customer loyalty and customer information systems, once remarked, "Do I want a relationship with my butcher, or do I just want to buy meat?" It was a one liner that perfectly captured the way many people felt about the retail sector's obsession with CRM. But he believes that loyalty cards etc have changed attitudes in recent years. "I think they have changed

the attitudes of some, and the use of these cards to underpin Internet ordering will have helped (though of course you don't need loyalty cards for this – it just helps). The main effect is always to concentrate spend in one convenient store when you have a choice of two," he says.

PCMS's Smith feels that socio-economically things have moved on. The desires and needs of the consumer have become far more complex and the best loyalty programmes are built around this. "The idea of unfettered loyalty has flown out of the window. Choice has become omnipresent, not only due to higher disposable incomes but also because of greater convenience, higher levels of service – and increased mobility," he observes. "This fits in with the ever-evolving bell-curve shape of retail. At one end, there are the mega-retailers, selling a product that is just about good enough at a price that is competitive. While at the increasingly populated other end of the curve are the specialist stores, selling on a ticket of quality and service, at a premium price. These stores are succeeding because our outlook is changing – we want to be pampered and, in general, we've got the income to back up that desire."

#### New technology

New research shows that retailers who offer targeted discounts and make it easy for those offers to be redeemed, could have a compelling way to develop customer loyalty. Despite traditionally low redemption rates and consumer apathy to money-off coupons in the UK, a survey carried out on behalf of Pay By Touch shows that shoppers have a

positive response to discount schemes if they are both highly targeted and convenient to use. In fact, the survey, in which over 100 shoppers were questioned in May 2007 by an independent research agency, revealed that 88 per cent of shoppers would use discount coupons, if these were more focused on their product preferences and were available in store while they were shopping.

Of those surveyed, 95 per cent of shoppers who use a retail loyalty card have received in-store discount coupons. However, 75 per cent of these people said they frequently forget to redeem them even though some of the discounts offered were on items they normally buy. Other factors that contributed to low redemption rates were the inconvenience of having to carry pieces of paper around and the fact that discounts were mostly for items the shopper did not have a history of buying. Only three per cent of shoppers said they would just like to use discount coupons to try a new product.

Increasing the places where consumers can redeem their points is critical in maintaining (and in some cases reviving) customer interest in loyalty programmes. This is where technology is playing a major part in moving the market forward. Pay By Touch, for instance, recently unveiled SmartShop, its new in-store personalised marketing solution. This combines

its patented biometric technologies with its relevance marketing platform to offer targeting based on shoppers' known preferences and established buying habits. It has been available at Green Hills supermarket in the US for the past 12 months and is now being adopted by other US grocery retailers. The plan is to launch SmartShop in to the UK market towards the end of the year.

Shoppers collect their offers by simply identifying themselves at the SmartShop kiosk when they enter the store. By identifying themselves again at checkout, discounts are automatically redeemed for any items they have purchased without the

need for paper coupons. The solution provides retailers with customer-based metrics and accurate data that improves the efficacy of marketing campaigns. Its targeting engine 'learns' from each shopping trip to generate the next set of rewards. It provides analytics to make reporting and account settlement easy and accurate.

Elsewhere, The Logic Group has announced a partnership with mobile marketing technology provider Eagle Eye Solutions to enable retailers to issue and redeem mobile vouchers. These are new to the UK and are already proving to be an exciting extension of TV advertising for ITV. "By generating vast amounts of SMS traffic, we have been able to demonstrate the awareness that our TV adverts generate," says Peter Manten, head of



interactive TV at ITV. "Having the capability to measure the success of specific marketing pushes and promotions will no doubt be hugely successful in a retail environment as leading brands look to interact with their customers more closely."

"This is pressing the red button and people being able to apply for a coupon or a voucher which can then be delivered to them via their mobile phone as an SMS text message. The CMO is then instantly able to see the success of the marketing programme and tailor it in real time to improve success rates," says The Logic Group's McMurtrie. "There is a growing awareness of the potential of mobile vouchers as part of a loyalty or marketing campaign and it's a very cost effective mechanism for reaching clients and producing highly targeted campaigns."

McMurtrie adds that his company has experienced success with BP on a mobile voucher initiative whereby drivers receive a voucher to redeem a free cup of coffee at their service stations. They apply for the voucher on a participating website when looking for directions. "BP have been delighted with the increase in sales and the generation of new loyal customers."

#### Answering the critics

Despite running into their fair share of criticism over the years, the future looks bright for loyalty programmes, although challenges and obstacles will always exist. Ghosh of Eversheds

highlights the fact that, in order to maximise the benefit of any customer loyalty scheme, the necessary regulatory issues need to be tackled head on. Therefore, the relevant data protection and privacy notices, shaped in such a way to maximise marketing, should be considered from the outset. They must be regularly refreshed and take into account emerging marketing technologies as have been seen in the last few years, such as RFID. "No doubt, there will be new, fast paced channels emerging to the market. Organisations therefore need to be both technologically and legally savvy to keep up with the constantly changing retail market," she says.

Bristol Business School/The Database Group's Stone sees "the most exciting future as out of store, with home delivery, especially for the most valuable customers, and here the key technology is the Internet."

Whilst PCMS's Smith talks of how "the dynamic and evolutionary nature of society continues to change," meaning that, "the need is there for the retailer to spot changing trends as quickly as possible, in order for their market offer to be modified, either through changing the product, or changing the nature of the

customer that the retailer is going after. A loyalty scheme should be able to read these trends as early as possible."

It's a route that all retail leaders are going down. Simply put, if a competitor knows more about the customer, they are at an advantage. And, in turn, consumers now see a piece of plastic as the norm, a given that brings its own rewards and incentives. "In addition, many retailers now have three or four sides to their businesses, with cross-selling becoming more and more prevalent. The risk of one part of the proposition impacting on another, negatively, is therefore much higher," he comments. "However, with a comprehensive, smoothly-run loyalty scheme, one view of the customer is enabled, meaning that knowledge of any previous problems with purchases will be known by all sides of the business."

Ultimately, loyalty schemes are alive and well and thriving. "Just don't expect them to engender loyalty!"

#### BOOK REVIEW

**Title:** *Scoring Points*

**Authors:** Clive Humby, Terry Hunt and Tim Phillips

**Publisher:** Kogan Page

**Price:** £25

Regardless of whether you agree with *Scoring Point's* argument that Tesco is big because it is good, not vice versa, the latest edition is an undeniably engaging, informative read. Lively and refreshingly free of marketing speak and techno psychobabble, it's the kind of book that can be enjoyed by the casual reader as well as



the CMO. It details how Tesco embarked on an 18-month internal review of its business, as well as describing how Kroger, a 2,500-store US supermarket chain, formed a joint venture to use Tesco's insights in to loyalty marketing in the States for the first time. Clubcard, the authors argue, is the retailer's "most potent weapon in the ongoing battle for market share."