



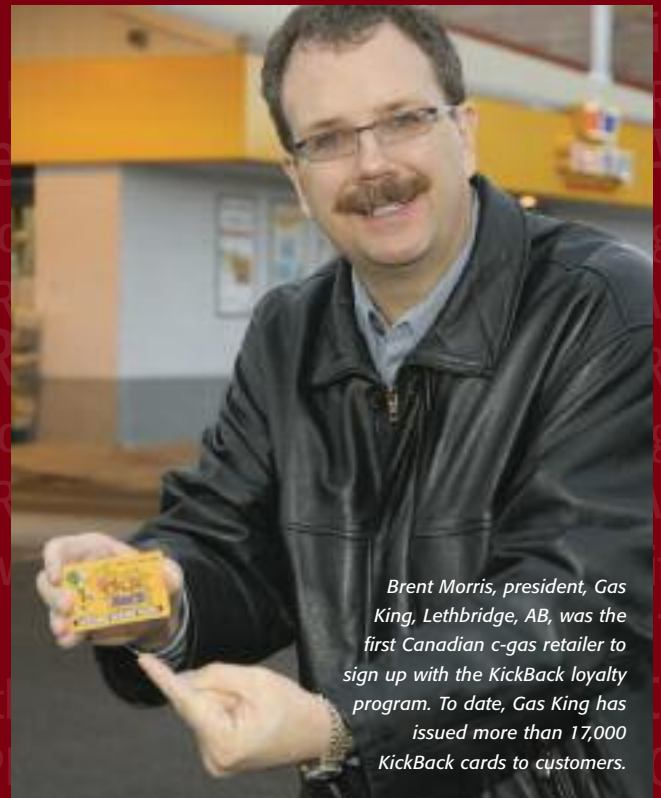
Time to get with a PROGRAM

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PROGRAM

BY DONNA GREEN

Loyalty marketing works



Brent Morris, president, Gas King, Lethbridge, AB, was the first Canadian c-gas retailer to sign up with the KickBack loyalty program. To date, Gas King has issued more than 17,000 KickBack cards to customers.

***“Health is the greatest gift,
contentment the greatest wealth and
faithfulness the best relationship.”***

Buddha probably wasn't talking about retailing when he spoke those words of wisdom, but retailers should heed them. A loyal customer's repeat business adds years of value to you and it is yours to lose. Friendships can be fickle, but in the world of retail there are many programs to reward your loyal customers and turn casual ones into regulars. Can you afford to be without one?

Canadians were early adopters of loyalty programs and by many anecdotal accounts are far more receptive than Americans to sign on board. Hugh Large, a convenience retail consultant, recounts the history of loyalty programs in the gas and c-store channel. “Shell Canada was the first in with their Air Miles program. It has been so successful that it drove Esso Canada to develop the Esso Extra program and Petro-Canada to develop Petro Points. Pioneer Petroleum has also had their Bonus Bucks program for many years. Once you get a customer hooked through a loyalty program, it is difficult for anyone else to take them away.”

Shopper's Drug Mart's Optimum program claims about one-third of Canadians as cardholders, according to Pat Chapman, director of communications. Nielsen data reveal that over 60% of Canadian households use a gas loyalty card. These cards are more powerful than you might think.

A study by The NPD Group in Canada found that loyalty programs are the second biggest factor in a consumer's decision to patronize a gas station. The biggest factor is location. If loyalty can trump price in something as commoditized as gasoline, stop thinking price is your only competitive weapon. Even a single store operator can pony up to the big boys with an effective loyalty program.

WHAT CAN LOYALTY PROGRAMS DELIVER?

Patrick Lewis, founder and CEO of KickBack Points program, says convenience store operators should be looking to accomplish three objectives with a loyalty program:

- 1) Decrease the defection rate of customers.
- 2) Increase the average ticket size.
- 3) Increase the frequency of visits.

These objectives are aimed at building your business with your existing customer base. Once that's secure, Lewis thinks retailers should try to bring in new business by cross-marketing with other non-competing businesses. KickBack is what's known as a coalition loyalty program: it's designed to be used in partnership with other retailers. The program has signed up around 100 separate businesses in the US.

KickBack's first customer in Canada is Gas King Oil Co. Ltd., a small gas and convenience store chain headquartered in Lethbridge, Alberta. Gas King's president, Brent Morris, says they launched the



Loyalty programs like KickBack are designed to help convenience retailers build their business with their existing customer base and turn new customers into returning customers.

Gas King's program currently works off a credit card terminal, but it should be integrated into their point-of-sale system later this year, “and then we can get more creative with our offers,” says Morris. “Right now we give everybody a point for every dollar they spend. We can also track purchases, so we can give the seventh coffee free, for instance.” Once integrated with their POS, he looks forward to giving specials on Sundays and doubling points for promotional product purchases. Previously, Gas King gave car wash coupons for their gasoline customers, but not all their locations had car washes. “KickBack includes all our customers, so we hope it will drive store sales,” says Morris, who is also looking for other local merchants to join the program to enhance its effectiveness.



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WHAT WILL IT COST?

Morris says the cost of signing on to KickBack has been reasonable. Although none of the loyalty program spokespeople will give out program costs for fear that one customized solution will be held as the cost standard, Morris says his particular program costs his company 1% of sales in points and a modest monthly fee per location for the program itself with just a one-year commitment.

As a general rule of thumb, reward programs usually aim at a give-back level of 5% of sales, according to Kelly Hlavinka, director of Colloquy, a loyalty publisher and consultancy in Ohio. The percentage, however, differs depending on the profitability of each industry.

Loyalty Programs for Canadian Retailers

KICKBACK REWARDS SYSTEMS:

www.kickbacksystems.com

OUTSITE NETWORKS:

www.outsitenetworks.com

VISIBLE RESULTS:

www.visibleresults.com

Loyalty Industry Information Sources

THE WISE MARKETER:

www.thewisemarketer.com

COLLOQUY:

www.colloquy.com

The perceived value of about 5% is what is most important, she notes, as this is what is likely to engage customers. “For example,” she explains, “a cup of coffee might cost 40¢ but is priced at \$1, so the customer’s perceived value is \$1. Convenience retailers might have to stretch to get that 5%, and by leveraging a coalition of retail partners, you can get there faster.”

“Too many retailers think they are limited to the things they can give away in their own store,” the director continues. “When you band together with other retailers, this allows the consumer to engage at a deeper level.” You’ll likely find a receptive ear with other retailers, too. “Look for retailers similar in size and region; all retailers are hurting in the same way from the big boxes.”

Regardless of the percentage of sales you decide you can afford to give back to your most loyal customers, Hlavinka points out some good guidelines for budgeting a program. She calls it the 80-16-4 rule. “Count on 80% of the cost going to rewards, 16% should be going toward communication with the customer, and 4-5% for the operation and technology of the program.”

All loyalty programs let you set your own reward level, and many are flexible enough to allow you to set up your own coalition cross

“We can get a 15% INCREASE in ticket averages among those using the card, and we have about an 18% INCREASE in average frequency [of visits] over time.”

marketing. The major difference in programs is their technology platform, the way they interface with your customers, and their cost. Many are scalable right down to a single store.

ROI

“You have to bank on 18-24 months for loyalty programs to break even,” notes Hlavinka.

Loyalty program providers might suggest slightly different timetables. Outsite Networks, a turnkey loyalty program that uses RFID tags and audio messages at the gas pump, reports that some customers have said their system paid for itself in 12-18 months. Bo Sasnett, VP of sales and marketing for Virginia-based Outsite Networks, says his program aims for an “overall sales lift of around 8-10%; 2-3% of loyalty sales is your reward cost.” In his experience, the first or second to market with a loyalty program gains the advantage. Outsite Networks has two major convenience customers in Canada, one on each coast, but confidentiality agreements prevent Outsite from releasing their names.

Another turnkey loyalty program, Visible Results USA Inc., has clients worldwide, but is just starting to expand into Canada. This program features a thin, thermographic card that instantly displays

and updates personalized customer information every time the card is used, including point totals, prizes and promotions. George Stevens, general manager for Visible Results, says customer frequency increases about 20% within three-six months of starting the program. “Average ticket tends to go up, too, well over 25% over a non-cardholder.”

Lewis gives these statistics for KickBack: “Over five years, we’ve been able to reduce the attrition rate of those using the card by about 30%, which has a compounding effect over time. We can get a 15% increase in ticket averages among those using the card, and we have about an 18% increase in average frequency [of visits] over time.”

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PROGRAMS NEED CREATIVITY

Loyalty is both an art and a science, says Hlavinka: “At the end of the day, it’s really about getting the customer value proposition right.” That doesn’t necessarily have to cost you money. Gas King’s Morris says his suppliers have generously provided many products to give away through his new loyalty program. “KickBack does the randomization of the winners per day, week and month. In the beginning we did lots of prizes and will continue to do so, but not at the same rate.”

In a highly competitive market, rife with channel blurring, loyalty programs can give your customers a bit of instant gratification. Short term, high frequency promotions get customers coming back with excitement in their step. But you can’t let your program grow stale. The prizes have to change, the frequency of random wins has to change, and the relevance to your customers has to be monitored continually.

Although loyalty companies will take care of all the record-keeping associated with their program and will also often manage the client contact, nothing can replace your knowledge of what your customers will find valuable and worthwhile. Turnkey loyalty programs do have marketing specialists to help, but ultimately you must be prepared to approach your suppliers for rewards, get your staff enthused, and maybe even find other retailers to join a cross-promotional campaign. Turnkey or not, a loyalty program will be more work, it will cost money, and it will be an ongoing commitment.

In an article entitled “The Trouble with Loyalty Schemes” for The Wise Marketer, April 2005, Belinda Neal warns retailers to avoid programs that simply give a discount to your biggest customers: “[T]hey reduce the amount of profit per customer by discounting existing behaviour rather than rewarding increased positive behaviour (e.g. spending more or returning more often).” Keep your offers fresh, exciting, creative and make sure they enforce behaviour you want to encourage.

In business, loyalty *can* be earned.

YCM