WHITE PAPER

Advanced Techniques in Loyalty Marketing

As the basic principles of loyalty marketing have gained wide adoption across the grocery and drug store industry, retailers can now gain advantage by applying more advanced loyalty techniques to drive their marketing and promotion strategy. ProLogic Retail Services, a leader in loyalty marketing solutions for independent retailers, has prepared this white paper to educate independent retailers about some of the advanced practices in loyalty used by leading retailers today.

Loyalty Marketing – The Basics

Many grocery retailers are taking advantage of the basic benefits available from a loyalty marketing program. Through an analysis of shopper data, grocers can identify their top shoppers and understand their purchase habits. The retailers can then design promotional strategies targeted at specific shopper segments that reward shoppers for increasing their purchases. These activities benefit the retailers' business through increased sales, higher margins and better return on their marketing spend.

Shopper engagement is vital to the success of any loyalty program. Shoppers must be motivated to participate in the program through a variety of promotions that encourage them to build a relationship with their store. These promotions can take the form of points programs, member discounts, fuel rewards, continuity programs and sweepstakes.

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These promotions should be communicated and reinforced through all the retailer's communications media including in-store, circular, email, mobile and social media.

Two key measures of engagement are the percentages of all trips and all purchases in which shoppers identify as program members. In order for a loyalty program to generate enough shopper data to be effective, shoppers should identify as program members in 60% of all trips and 80% of all purchases.

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For more information about loyalty metrics, see ProLogic's white paper entitled "Loyalty Marketing Metrics: Quantifying Shopper Value" available on the Downloads page of ProLogic's website: www.prologicretail.com/downloads/

With purchase data captured by shopper, retailers can segment their shopper database and determine distinct categories of shoppers including top shoppers, occasional shoppers and new shoppers. They can also determine shoppers with affinities for certain categories such as meat, baby products, produce, wine, cheese, and coffee.

With these segments identified, retailers can design targeted marketing programs to appeal to each category of shopper; for example:

- Promotions to retain and grow top shoppers

- Re-activation offers to top shoppers whose spending or visits have lapsed

- Offers to occasional shoppers to grow them into top shoppers

- Welcome programs for new shoppers

- Clubs for shoppers in affinity categories: baby, wine, meat, sandwiches, etc.

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Advanced Loyalty Marketing – The Next Step

With these first-level principles of loyalty marketing in active use, retailers can consider some of the more advanced techniques. These practices include access pricing, offer matching, front page analysis, spotting analysis, e-receipts, stealth marketing, top shopper meet 'n greet, and instant shopper communication.

Access pricing

Access pricing enables retailers to advertise highly aggressive pricing on certain items by requiring a points redemption to qualify for the low prices. Top shoppers earn points on their regular purchases and can redeem points in order to take advantage of very low prices. For example, the retailer can offer a dozen eggs for 99 cents or bananas for 9 cents/lb along with the redemption of 1,000 loyalty points.

Access pricing enables the retailer to openly advertise highly aggressive pricing that undercuts even the big-box discounters and creates the perception of a low-price leader. Since the pricing is only available to the shoppers who have the points to qualify for it, this strategy enables the retailer to effectively differentiate pricing between top shoppers and infrequent shoppers.

Many independent retailers have successfully used an access pricing strategy to retain top shoppers and maintain a reputation of price competitiveness. Through increased sales to their best shoppers, the retailers are able to increase their margins well above the cost of the access pricing program.

Offer matching
Offer matching is a process in which specific offers (defined by the product's UPC code and the discount) are scored and ranked against each other based on their relevance to key categories of shoppers. For example, offers can be ranked based on their frequency of past purchases by top shoppers. With this analysis, retailers can determine which offers to feature in their circular or email advertising. Offers which have a high score relative to top shoppers can be featured more prominently compared to offers for products which are not favored by top shoppers.

Offer matching ensures that a retailer's best offers are attractive and being communicated to the desired segment of shoppers. It gives retailers a means of ranking offers from different vendors and determining which should be most prominently featured and advertised to which shoppers. Some retailers create multiple versions of marketing vehicles (such as circulars or emails) with different featured offers and use offer matching to send them to the most relevant group of shoppers.

Front page analysis
Another effective technique for maximizing the performance of the print circular is front page analysis. Typically, retailers showcase their best offers on the front page of the circular, and front page analysis measures the movement of the featured items based on the shopper segment. Retailers can determine whether the featured items were purchased by the desired shopper segment. They can also measure the size of the basket that contained the featured item to determine if the sale item was purchased stand-alone or as part of a larger overall basket.
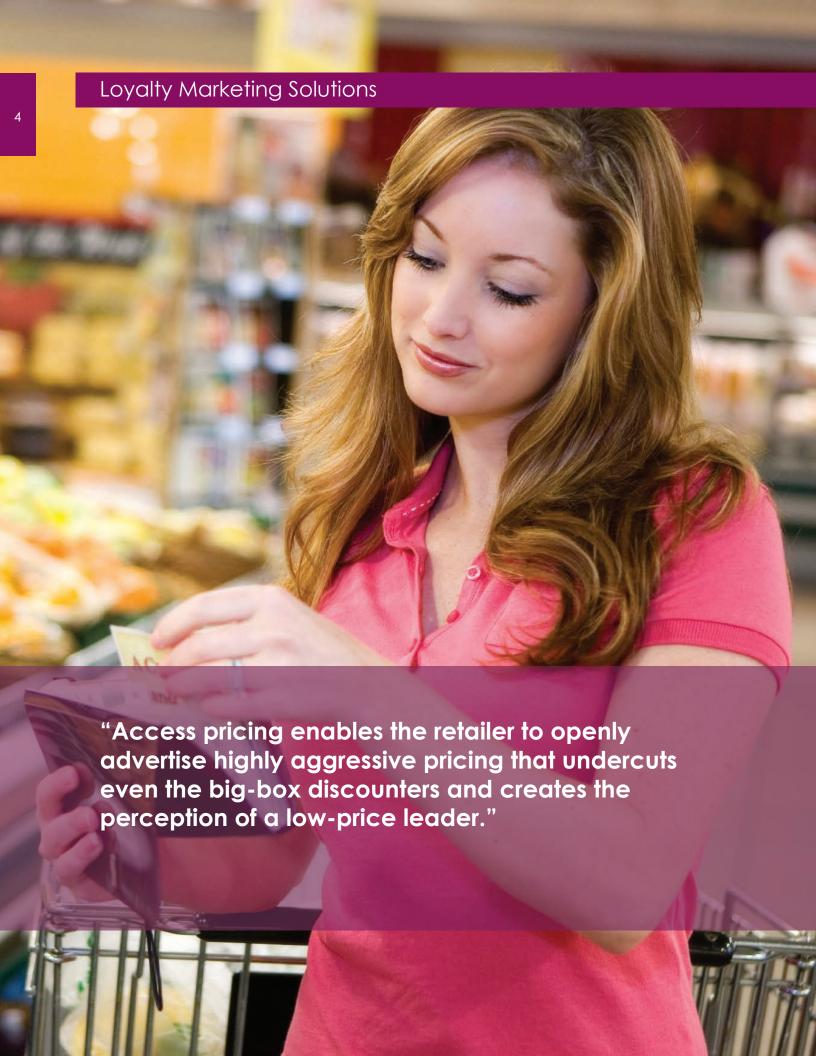
For example, a retailer may choose to feature discounts on the front page of the circular and expect these to be purchased by its top shoppers as part of a large basket. Front page analysis can inform the retailer whether the shoppers who purchased the items are indeed top shoppers or lower-ranked shoppers who may have purchased only the featured item.

Spotting analysis
Spotting analysis enables a retailer to analyze the geographic coverage of its circular distribution by zip code, and then compare this distribution to the addresses of its top shoppers. Retailers should match their circular distribution to the zip codes of their top shoppers to the maximum extent possible in order to communicate their best offers to their best shoppers and grow their purchases. Retailers often use spotting analysis to increase or reduce the coverage of their circular in certain areas and therefore improve the return on investment for their marketing spend.

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E-receipts

E-receipts are an emerging new capability for grocers which present an opportunity for additional shopper marketing. At checkout, shoppers have the option to receive an e-receipt by email in addition to the physical receipt they receive at the register. The e-receipt is accompanied by targeted promotions and loyalty messages that encourage the shopper to return for special offers on her next trip.

Stealth marketing

Stealth marketing is a technique used by independent grocers to retain their top shoppers in the face of competitive advertising or store openings, usually by large national retailers or big-box chains. An independent grocer's biggest risk from competitive activity is the loss of its top shoppers who deliver the majority of the retailer's revenue and profits.

When responding to aggressive competitive advertising, the independent grocer has several options. If the retailer matches the competitive pricing with its own advertising, it will likely result in a price war that damages the independent retailer and may be ineffective in retaining its top shoppers. A better approach is to engage in a stealth marketing campaign, in which an independent grocer leverages its loyalty program by sending attractive offers directly to its top shoppers.

With its direct line of communication to its top shoppers through its loyalty program, the independent grocers can send offers to top shoppers that are not visible to competitors. With this "stealth" approach, the independent grocer can promote aggressive offers that retain top shoppers even in the face of aggressive competitive advertising. Furthermore, the independent grocer's offers are personalized to the top shopper's individual purchase habits, and are therefore likely more valuable to the shoppers compared to generic promotions from the competitors.

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Top Shopper Meet 'n Greet

Top Shopper Meet 'n Greet is another effective technique that independent grocers can use to recognize top shoppers. When top shoppers self-identify at checkout, the loyalty system alerts store management that a top shopper is in the process of checking out. This notification provides store managers with the opportunity to greet the shopper, thank her for her trip and ask for feedback on her overall experience with the store.

Instant shopper communication

Instant shopper communication is an advanced application of the loyalty system in which the shopper receives a personalized communication instantly based on her purchase behavior. The loyalty system is linked to the retailer's email, social media or mobile messaging system and enables the retailer to immediately communicate a customized message to a shopper once she has met a specific purchase criteria.

For example, a shopper could make a purchase that qualifies her for a reward, perhaps as part of a continuity program. The store could send her an email or text immediately upon leaving the store congratulating her on earning the reward and encouraging her to return and claim the reward on her next trip. The communication is highly targeted and relevant and can be coupled with further promotional offers.

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"With stealth marketing, the independent grocer can promote aggressive offers that retain top shoppers even in the face of aggressive competitive advertising."

Conclusion

The advanced techniques in loyalty marketing described above present retailers with ideas for how to take their loyalty marketing programs to the next level. There is wide agreement in the industry today about the benefits of harnessing shopper purchase data for personalized shopper marketing, and independent grocers should pursue these opportunities to the maximum extent possible in order to retain their best shoppers and grow their purchases.

For more information on advanced applications of loyalty marketing, contact ProLogic at info@prologicretail.com or by phone at (561) 454-7615.

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