

Loyalty Marketing Solutions

WHITE PAPER

Loyalty Marketing Metrics: Quantifying Shopper Value

During the past several years, supermarket loyalty programs have benefited retailers by providing them with meaningful data about their shoppers and their purchase habits. In the past, retailers measured the performance of their business mainly by product category, but the emergence of loyalty marketing programs has enabled retailers to also track their business using metrics based on shopper information. Savvy retailers are using this information to provide targeted personalized offers to better engage their shoppers and to increase their purchases.

ProLogic Retail Services has been providing supermarket loyalty programs for over twenty years. This white paper draws from our experience in the industry and the insight we have gained by managing loyalty programs at hundreds of retailers and over 1,000 stores. This report also draws from the work of loyalty marketing expert Brian Woolf and his book "Loyalty Marketing – The Second Act".

Why loyalty marketing?

The ability to capture and analyze data on a shopper-level basis opens up a broad spectrum of analysis that supermarket retailers can use to grow their business. Grocers can measure activity by shopper, response to promotions by shopper and profitability by shopper. Furthermore, retailers can identify their top shoppers and potential top shoppers and design promotions to cater to the needs and wants of these shoppers.

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In grocery as in other businesses, a minority of customers account for the majority of sales. Supermarket industry data shows that in most stores, the top 30% of shoppers make up 75% of the sales. This statistic underscores a retailer's need to identify its top shoppers and design specific promotions to retain their business. The fundamental goal of a loyalty or CRM program (also known as a Customer Relationship Management or "CRM" program) is to reward, retain and grow a store's top shoppers.



In general, "Top Shoppers" are those who spend at least \$50.00 per week in a store, while "Occasional Shoppers" are those who spend at least \$25.00 per week. Compared to other shoppers, Top Shoppers spend far more and are responsible for a majority of the retailer's profits. Many leaders in the industry believe the single most important metric a retailer can track is the number of Top Shoppers per store. If this number is growing, it's a very positive indicator of the store's financial health.

Furthermore, a retailer can improve the return on its marketing investment by using a loyalty marketing program. For decades, printed circulars have been the most widely-used marketing vehicle for grocery retailers. The drawback of printed circulars however is that they are expensive and use a mass-market approach. With a loyalty marketing program, retailers can redirect their marketing dollars to focus on Top Shoppers and potential Top Shoppers, thereby reducing marketing costs and improving the efficiency of their marketing campaigns.

Loyalty marketing programs can also help independent retailers to compete against big-box discounters, large chains and non-traditional grocery stores such as Target, Walgreens and dollar stores. With its Top Shoppers identified, a retailer can

match or beat competitive pricing with custom offers communicated directly to shoppers that are invisible to competitors. With this direct marketing technique, a retailer can provide attractive offers only to its most loyal and profitable shoppers and not to the "cherry picker" shoppers who only buy products on deal and then leave the store.

In summary, a loyalty marketing program enables retailers to achieve the following goals:

- Identify, recognize and reward its Top Shoppers
- Measure the performance and Top Shoppers, potential Top Shoppers, and other shoppers
- Encourage repeat visits and purchases among its Top Shoppers
- Use technology to improve promotional offers and customer service
- Measure effectiveness of specific promotions and campaigns

Collecting the Data

How does a retailer collect data on a customer-specific basis? In order to collect purchase data on each customer, a retailer needs to have a mechanism by which shoppers identify themselves as they check out.

The most common means of shopper identification is via a loyalty or rewards card that the shopper or cashier inputs into the point-of-sale (POS) system. Some retailers choose not to use a physical card and instead opt for a personal ID number such as a telephone number.

It's important to note that when considering a loyalty or CRM program that it's not about the card. It's about collecting, analyzing and acting on customer-specific data. Most retailers partner with a loyalty marketing provider to integrate a customer identification process into their POS system.

factors influence same-store sales growth and it's difficult to isolate the impact of the loyalty program. Same-store sales is an important overall metric for gauging a retailers' financial health; ProLogic uses it in combination with other more loyalty-specific metrics to measure the success of our programs with retailers.

2. Shopper activity metrics

These metrics measure the participation of shoppers in the loyalty or CRM program. For a loyalty program to be effective, a retailer must have a high percentage of its shoppers enrolled in the

Sales performance metrics	Goal
Same store sales (yr/yr)	Positive growth
Same store sales to program members (yr/yr)	Positive growth

Loyalty Marketing Metrics

Once the retailer has collected the data, what are the most salient metrics to measure the success of a loyalty marketing or CRM program? ProLogic organizes its customer measurements into four key areas: sales performance metrics, shopper activity metrics, Top Shopper metrics and New Shopper metrics.

1. Sales performance metrics

A standard industry measure of a retailer's success is same-store sales growth. This metric is fundamental to understanding whether a retailers' stores are growing or declining, and is frequently used as a key barometer to measure the financial stability of retailers.

The challenge with using same-store sales solely to measure the success of a loyalty or CRM program is that many

program and self-identifying with each purchase. If a meaningful percentage of shoppers are not participating, then the retailer is not capturing enough data by shopper for the program to deliver effective results.

The key shopper activity metrics are the percentage of all shopper trips that are captured in the program and the percentage of total sales that are captured in the program. To more easily convey these metrics, we can assume the retailer uses a card and call these metrics "trips on the card" and "sales on the card". The metrics are the same if the retailer has a cardless program and uses another type of personal identifier instead.

ProLogic recommends that retailers strive for shopper activity goals of at least 60% for trips on the card and 80% for sales on the card. At these levels of participation, the retailer is collecting enough data

“A loyalty card is not something that, once introduced, automatically increases customer loyalty. The information it generates increases our customer knowledge, allowing us to make better decisions across many areas of the company—not just marketing—resulting in improved sales and profits.”

- Brian Woolf, “Loyalty Marketing – The Second Act”

Shopper activity metrics	Goal
Trips on the card	60% of all trips
Sales on the card	80% of all sales

on a customer-level basis to ensure that the program can work properly to segment shoppers and design effective promotions. For retailers with activity metrics below these levels, we work with the retailer to boost shopper enrollments and participation in the loyalty program

Activity levels above these goals are difficult to achieve because non-participating shoppers can be new shoppers or very infrequent shoppers who will not opt to participate in the loyalty program.

3. Top Shopper metrics

Top Shoppers are critical to a store's financial performance because they exhibit all the characteristics that are elemental to a store's success. Not only do they spend

more than other shoppers, but they also buy across categories, enhancing their profitability as they purchase from higher-margin departments. They also shop more frequently, which can spur their participation in continuity-type promotions. Top Shoppers typically purchase an average of 25 items per transaction compared to 10 items per transaction for an average shopper.

Top Shoppers also tend to defect at a lower rate compared to Occasional or New Shoppers. It is much less expensive for a store to retain its Top Shoppers than to grow the purchases of Occasional or New Shoppers. Some retailers mistakenly focus their marketing budgets solely on bringing New Shoppers into their stores when the reality is that New Shoppers always show a high rate of defection.

Top Shopper metrics	Goal
Number of Top Shoppers per store	Positive growth
Top Shoppers as a % of all shoppers	12%-25%
Sales to Top Shoppers	Positive growth
Sales to Top Shoppers as a % of all sales	40%-60%
Top Shopper retention rate (any level)	95%
Top Shopper retention rate as Top Shoppers	60%

"Marketing works. Data analysis works. And when you combine the two, it should not be surprising that it is possible to move the needle. What I don't understand is why a retailer would not use data analysis to market more effectively to customers."

- Kevin Coupe, supermarket industry analyst and editor, MorningNewsBeat

The wiser course of action is to focus on retaining and growing their Top Shoppers in each store by directing its marketing spend toward this segment.

In addition to measuring their number of Top Shoppers per store, retailers should track the percentage of Top Shoppers among all their shoppers. For leading retailers, the percentage of Top Shoppers should range between 12% - 25%. Likewise, retailers should measure the sales to Top Shoppers, both in absolute dollars and as a % of total sales. Leading retailers typically

see 40% - 60% of their sales going to Top Shoppers. Retailers should also measure the retention rates of Top Shoppers, which should be very high, on the order of 95%. To get more granular around Top Shopper retention, retailers can measure how many shoppers remain in the top tier vs. falling down into the tier of Occasional Shoppers.

4. New Shopper metrics

New Shoppers are very important to a store's customer base as they have the potential to add incremental sales and replace Top Shoppers or Occasional Shoppers lost to attrition. However, retailers must realize that New Shoppers are initially low spenders and exhibit a high rate of defection. Retailers should be careful not to over-allocate their marketing budget to attracting New shoppers.

New Shopper retention rate typically runs at 40%, which is much lower than both Occasional Shoppers and Top Shoppers. Furthermore, only about 1% of New Shoppers ever become Top Shoppers and only 3% ever become Occasional Shoppers. In other words, 96% of New Shoppers will either remain low spenders or defect over the course of one year. It's easy to see why retailers get much more bang for their marketing dollar by focusing on their Top Shoppers as opposed to an all-out strategy to acquire New Shoppers.

New Shopper metrics	Goal
Number of New Shoppers per store	Positive growth
New Shoppers as a % of all shoppers	10%
Sales to New Shoppers	Positive growth
Sales to New Shoppers as a % of all sales	3%
New Shopper retention rate	40%
New Shopper retention rate as Top Shoppers	1%
New Shopper retention rate as Occasional Shoppers	3%

“A well-designed loyalty program that strategically uses customer data to make price, promotion and assortment decisions will position retailers to understand and best satisfy the needs of customers.”

- Graeme McVie, VP at Precima, a division of LoyaltyOne

Conclusion

Loyalty marketing and CRM programs have delivered strong results for many supermarket retailers. These programs have emerged as effective tools for retailers to both understand their shoppers' buying behavior and to communicate value and rewards. While these programs don't guarantee shopper loyalty, they do guarantee retailers the data and knowledge about shoppers that is critical for proper decision-making.

Loyalty programs have also enabled retailers to improve their financial results. By focusing their marketing dollars on higher-spending, more profitable shoppers, retailers typically see increased sales and

profits as Top Shoppers increase their spending. Retailers also benefit from improved return on their marketing investment as they concentrate their spending on active shoppers and decrease their spending on inactive shoppers or “cherry pickers” who buy only on deal.

As leading supermarket industry analyst Kevin Coupe said in a March 2015 newsletter, “Marketing works. Data analysis works. And when you combine the two, it should not be surprising that it is possible to move the needle. What I don't understand is why a retailer would not use data analysis to market more effectively to customers.”

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For more information

ProLogic Retail Services has been providing loyalty marketing and CRM services to supermarket retailers for over 20 years. You can learn more by visiting our website at www.prologicretail.com. To speak with a ProLogic representative in person, contact Guy Keller at gkeller@prologicretail.com or by phone at (815) 459-8379.

We also invite you to visit Brian Woolf's website at www.brianwoolf.com, where you can download Brian's book "Loyalty Marketing – The Second Act".

