Oxford Institute of Retail Management
Said Business School
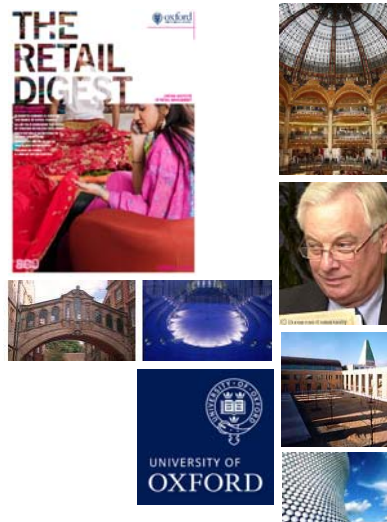
SAID BUSINESS SCHOOL

WWW.SBS.OX.AC.UK/OXIRM/

La maturità del Loyalty marketing: le strategie dei principali players del Regno Unito tra crisi e concorrenza

Dr. Jonathan Reynolds
Academic Director
Oxford Institute of Retail Management
University of Oxford

Oxford Institute of Retail Management
Said Business School

Who am I? Retailing at the University of Oxford

- *"Relating critical analysis and sound scholarship to the practical needs of retailers and consumer service companies"* – a bridging role for nearly 25 years within management research
- Broad research themes of corporate interest
    - Retail planning & development
    - Innovation & technology in retailing
    - Retail marketing and strategy
    - Sustainable consumption
    - Analysis of international retail performance
    - Supply chain management
- Engagement and dissemination
    - Executive education
    - Oxford Retail Futures Group
    - The Retail Digest
- Working with students
    - MBA Retailing course
    - Student projects, placements and internships
- Contact
    - Website: http://www.sbs.ox.ac.uk/oxirm
    - Blog: http://oxford-institute.sbsblogs.co.uk/

THE MATURITY OF LOYALTY MARKETING

Outline

- The history of loyalty marketing
  - Some theory, some practice
- What has happened on the UK loyalty scene over the past 5 years?
  - What has the market provided?
  - How have consumers responded?
- What is the impact of the crisis on UK retailers' loyalty strategies?
- How can loyalty tools be used to withstand the crisis?
- The future of loyalty marketing?
- What have we learned?

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Understanding customer satisfaction

Oxford Institute of Retail Management
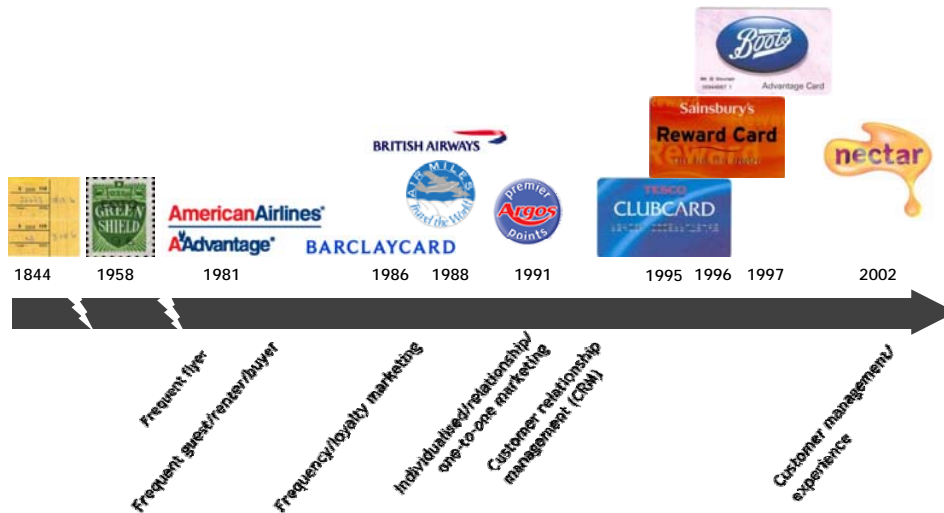Said Business School

- *"Cracks in the satisfaction research dynasty are beginning to appear"* (Oliver, 1999)
- *"Of those customers claiming to be 'satisfied' or 'very satisfied', between 65% and 85% will defect"* (Reichheld)
- Customer feedback
  - Telling you what you want to hear
  - Telling you very little
- Satisfaction ratings
  - Unreliable and context-specific
  - Taiwan 98-99% satisfaction rating
- Mystery shopping

Source: various MNC retailers, 2005
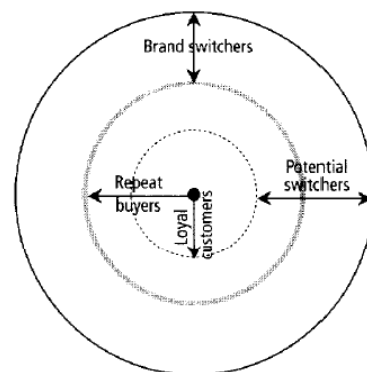
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The long history of loyalty programmes

| 1844 | 1958 | 1981 | 1986 | 1988 | 1991 | 1995 | 1996 | 1997 | 2002 |

Frequent flyer

Frequent guest/renter/buyer

Frequency/loyalty marketing

Individualised/relationship/one-to-one marketing

Customer relationship management (CRM)

Customer management/experience

Source: Nectar

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Only one kind of loyalty?

- Monopoly loyalty (no alternative)
- Inertial loyalty (habit; can't be bothered)
- Cognitive loyalty (rational reasons for re-patronage)
    - Price or deal loyalty (bribery)
    - Incentivised loyalty (points mean prizes)
- Emotional loyalty
    - Affective (liking)
    - Conative (potential for action)
    - Action

Source: Oliver, 1999; IMP

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3

Myts about loyalty?

- Many customers want an involving relationship with the brands they buy
- A proportion of these buyers are loyal to the core and only buy one brand
- The hard-core loyal buyers are a profitable group because there are many of them and they are heavy or frequent buyers
- It should be possible to reinforce these buyers' loyalty and encourage them to be even more loyal
- With database technology, marketers can establish personalised dialogues with customers, resulting in more loyalty
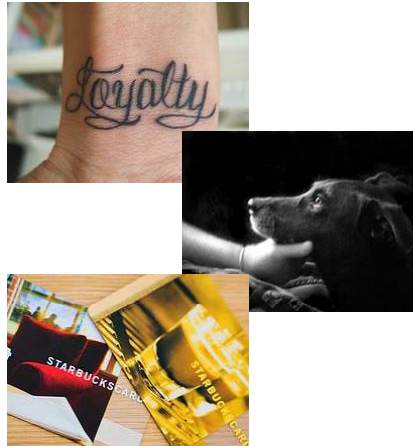
Source: Dowling & Uncles, 1997

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## The leaky bucket theory vs. polygamous loyalty

- *"There is reliable evidence that many or most heavy users are multi-brand loyal for a wide range of products and services"* (Dowling & Uncles)
- King Solomon had 700 wives and 300 concubines
    - Serial polygamy
    - Polygamy in or out of wedlock
- Many good reasons for polygamous loyalty
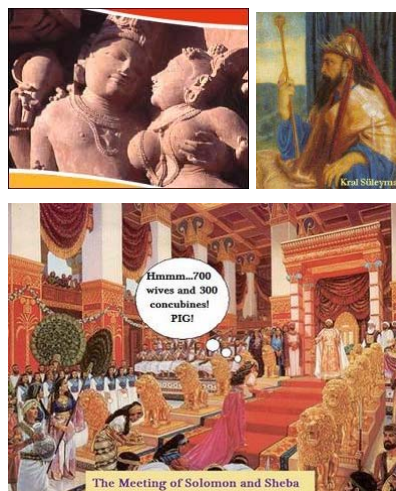
Source: Dowling & Uncles, 1997

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Customer Relationship Management

- Stores & integrates information on marketing issues from many sources
- Provides for the dissemination of such information to decision-makers and other users
- Supports marketing decision-making in planning & control
- Now likely to use electronic channels
- Not just a new name for market research
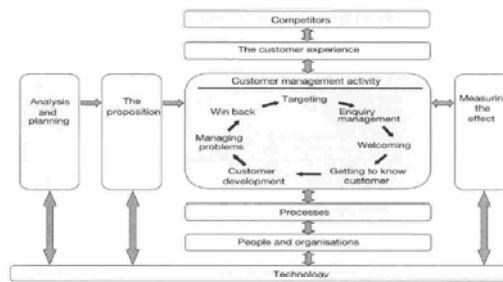
(Stone et al, 2003)

"Few companies reach good standards in the way they plan and manage the acquisition and use of customer data, and so run the risk of their data not being able to support their customer relationship management strategies or indeed privacy or data protection requirements" (Stone et al, 2003)

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The growth of loyalty marketing schemes in the UK

- Distinguish between loyalty scheme and 'store card'
- Growth in adoption
  - 4x penetration 1995-2008
  - Levelling off 2006-08
  - Highest penetration: music/entertainment
  - Lowest penetration: fashion/department stores
- Almost half of the UK population take no part in a loyalty scheme, despite registering for them (IPSOS/MORI)
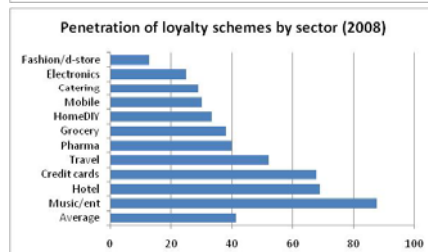
Source: GI Insight, 2009

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Solo schemes: Tesco Clubcard

- First UK supermarket scheme, launched 1994
- *"What scares me about this is that you know more about my customers after three months than I know after 30 years."* (Ian MacLaurin)
- *"Customers will always tell you what they think you want to know. A customer who is less affluent is not going to admit that they go in and buy the cheapest possible products"*
- 16mn active cardholders
- £4 of every £5 spent in store by Clubcard holders
- Tells Tesco where customers live, what they spend and where they spend it
- £1bn in vouchers and coupons sent out
- Six different variations of Clubcard magazine sent out
- Recent statements with as many as 9,000,000 variants
- Relaunched in May 2009

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Tesco Clubcard

- **Strengths**
  - First-mover advantage
  - Single brand orientation, with point-earning partnership brands
  - Acquired data analysis expertise (dunnhumby)
  - Fifteen years' data and experience
  - Cross-selling opportunities within Tesco categories (e.g. personal finance)

- **Weaknesses**
  - Single brand dominant
  - More expensive and higher risk
  - Fewer cross-selling opportunities outside main brand
  - Poorer reach than coalition
  - Little knowledge of 'non customers'

"We have been able to predict future sales at six months to 98% accuracy"
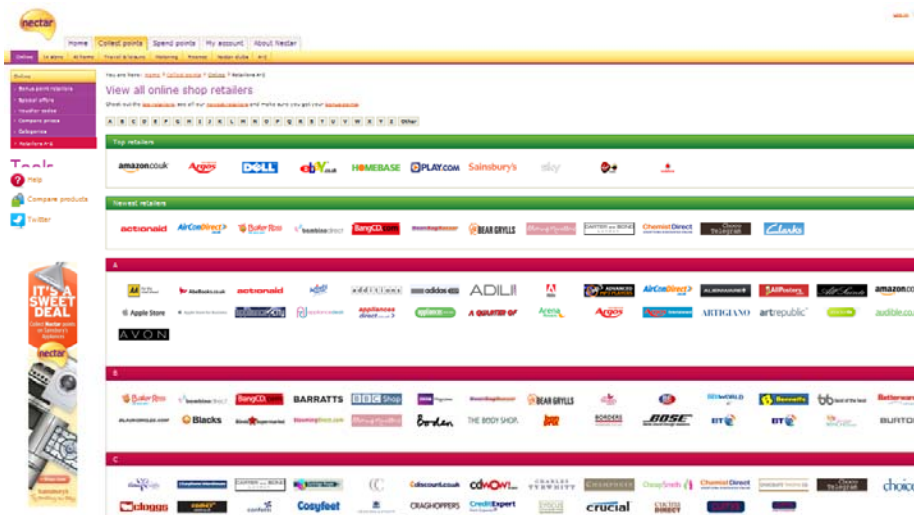
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Coalition schemes: Nectar

- *"Electronic green shield stamps"* (David Sainsbury)
- Tesco's success led to launch of Sainsbury Reward Card in 1996
- Abandoned 'go it alone' and launched with Nectar in 2002
- *"Nectar has an enormous amount of brands on board: they can't all be idiots"*
  - 20 partners
  - Hundreds of affiliated e-retailers
  - 50% UK households collect points
- Major defections
  - Barclaycard, Debenhams
- Soft relaunch in 2009
  - New DIY partner: Homebase
  - Insurance services: confused.com

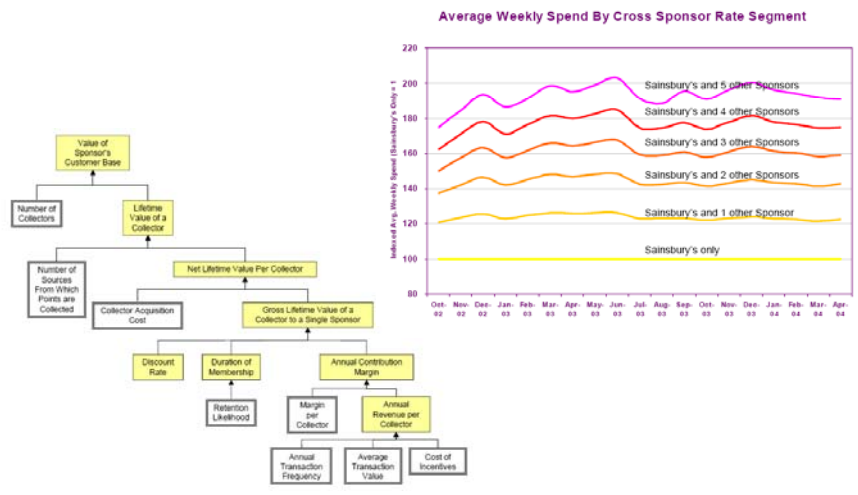THE MATURITY OF LOYALTY MARKETING

Nectar e-retailers

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Nectar

- Strengths
  - Single piece of plastic
  - Many strong brands
    - 5,580 participating outlets
    - 5,000 points/yr average
  - Cross-shopping analysis possible
    - 360mn transactions/year
    - Average member collects with 2.24 sponsors
    - 1.27mn collecting with four or more sponsors
  - 220 e-retailers

- Weaknesses
  - Who owns the Nectar brand?
  - What happens at the end of a contract?
  - Member product strategies
  - Redemption rates
  - Consumer attitudes & behaviour
  - Translation into long term market share?
    - E.g. BP experience
  - Data analysis challenges (recent launch of *Self Serve*)
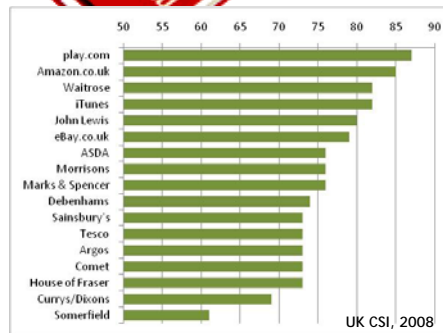
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Economics of coalition schemes

Average Weekly Spend By Cross Sponsor Rate Segment

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Satisfaction fights back: the net promoter score

- " 'willingness to recommend to a friend' is the single most reliable measure of brand equity" (Fred Reichheld)
- Produces 'net promoter' score (promoters, passives, detractors)
- Similar to "revenue premium" methodology advocated by Professor Don Lehmann of Columbia University
- Limitations
  - Not suitable for all industries
    - E.g. Monopolies/near monopolies
  - What creates this equity?
  - Best? ACSI just as reliable indicator of growth
- "We find no support for the claim that NPS is the 'single most reliable indicator'" (Keiningham et al 2007)

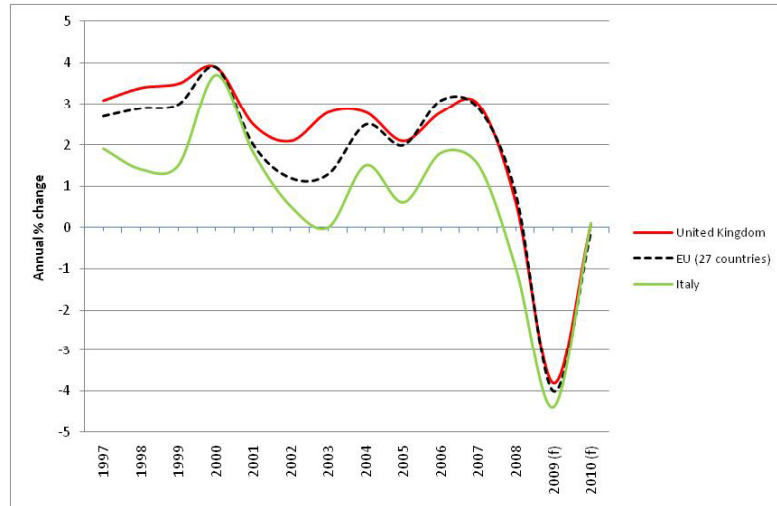UK CSI, 2008

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Source: www.ncsiuk.com

Crisis, what crisis?
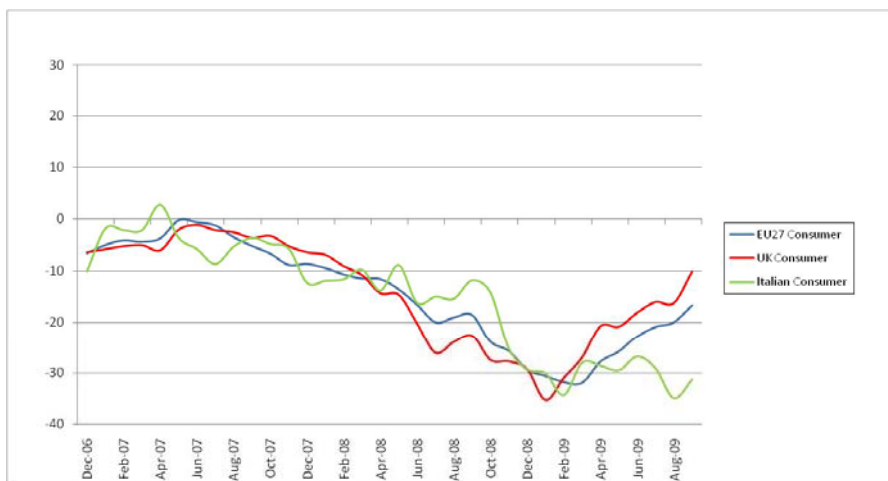
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The economic environment: change in GDP

Source: Eurostat, October 2009

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Consumers' confidence 2007-2009

Source: Eurostat, October 2009

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Trends in the crisis

- Shift from wants to needs
  - Less credit/confidence
  - Purchasing deferred
  - Continue range reviews & extensio
  - Take account of local conditions
- Greater price competition
  - Visible price architecture
  - Good, better, best
  - Favours price discounters?
- Demonstrate value credentials
  - Sourcing/buying power
  - Scope or specialisation?
- Don't forget key differentials
  - Established customer relationships
  - Service expertise
- Role of loyalty marketing?

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Greater price competition

ASDA SAVES AVERAGE HOUSEHOLD £3,400 SINCE 1997*
Prices now 22% cheaper than a decade ago

Tesco to equal discounters' prices
Tesco will match the prices on more than 2,000 Aldi and Lidl product lines, a sign of the grocer's concern over the rising popularity of its discount rivals.

Promotions Spur Growth In UK Grocery Sales

"A record 32 percent of all sales are goods on offer" (June 2009)

Shoppers pay £9 more at Waitrose than they would at Asda
Last updated at 12:25pm on 7th January 2008

Comments (7)

Shoppers who use Waitrose are spending £9 more than if they bought their weekly groceries at Asda, a new report reveals.

Trade magazine The Grocer revealed the wide gulf in the cost of the same list of 33 products at different UK High Street supermarket chains with welcome savings to be made by shoppers willing to switch stores.

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Misjudged response? "Britain's Biggest Discounter"

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An alternative to loyalty marketing: Asda

- *"Loyalty cards are somewhat mis-named. They just give money away … trust cannot be bought by plastic points and money-off vouchers"* (Andy Bond, CEO, Asda)
- Instead: trust and transparency
- Fostering 'democratic consumerism'
1. Chosen by You
    - 18,000 Asda shoppers as co-producers
2. Your Asda
    - Aisle Spy
    - Webcams (farms, head office)
    - Transparent store (2010)
3. Bright Ideas (2010)
    - Ideas on commission
    - Save £2mn = 5% commission

http://your.asda.com/

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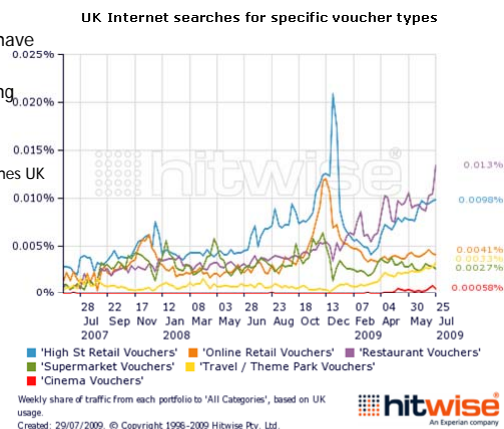## An alternative to loyalty marketing: Waitrose

- Waitrose: upscale grocery retailer, part of the John Lewis Partnership; no loyalty card
- 4% market share
- perceived as expensive
- Crafting a response to the crisis
- Consumers buying less from store
- Waitrose Essentials
  - Launched March 2009
  - 1,450 own brand products
  - "the biggest decision and the biggest launch in the history of Waitrose" (Mark Price, CEO)
- Market share growth

Introducing the new essential range from Waitrose.

Quality you'd expect at prices you wouldn't.
essential
Waitrose

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The need for immediate rewards: growth in online vouchers

- Shoppers have been searching for more immediate rewards
- UK Internet searches for discount vouchers have increased by 47.5% 2008-09
- Market more mature: shoppers now becoming more savvy (directed searches)
- Top ten voucher codes
  1. 'voucher codes' (8.4% of voucher-related searches UK over the period)
  2. 'pizza express voucher' (3.9%)
  3. 'discount vouchers' (2.9%)
  4. 'vouchers' (2.2%)
  5. 'my voucher codes' (2.0%)
  6. 'restaurant vouchers' (1.9%)
  7. 'tesco vouchers' (1.6%)
  8. 'pizza hut vouchers' (1.4%)
 9. 'dominos vouchers' (1.3%)
  10. 'tesco voucher codes' (1.2%)

UK Internet searches for specific voucher types

Weekly share of traffic from each portfolio to 'All Categories', based on UK usage.
Created: 29/07/2009. © Copyright 1996-2009 Hitwise Pty. Ltd.

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Dedicated voucher code sites

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Using loyalty tools to withstand the crisis

- Customer insight
  - Where is consumers' value for money focus?
  - Which products/categories are most price sensitive?
  - E.g.private label preferences
- Rewarding customers
  - Incentivising price sensitive purchases
  - •E.g. Sainsbury double points for 2 years with a financial services purchase
  - •E.g. Sainsbury's 'money off' coupons
  - "Sharing the customer's pain"
- Tesco's relaunch of Clubcard
  - £150mn investment
  - 2 points for every £1 spent
  - Clubcard desks in store
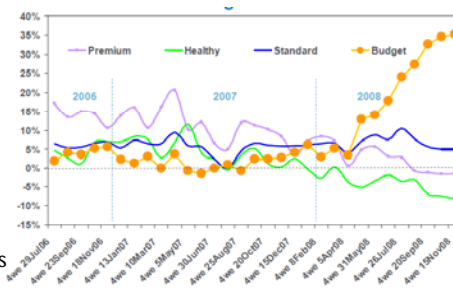
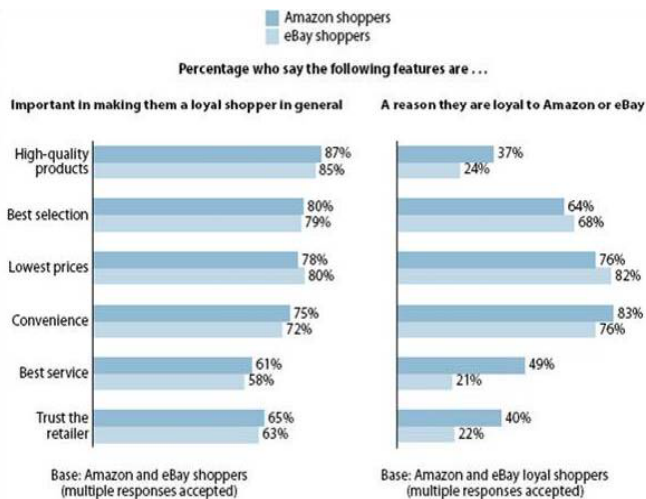THE MATURITY OF LOYALTY MARKETING

Are discounters failing to increase shopper loyalty?
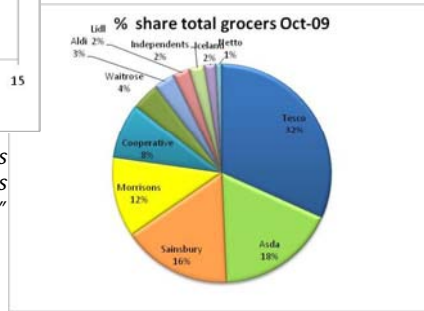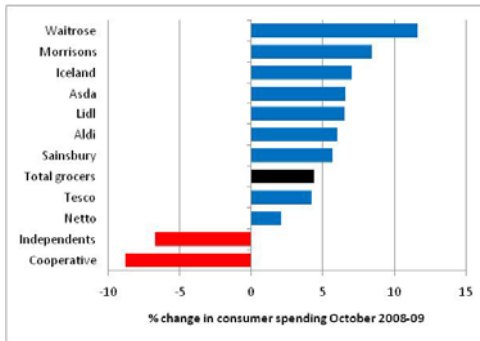
"'recession panic' among British consumers may be abating, at least as far as the grocery sector is concerned"

Source: TNS Worldpanel

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The future of loyalty marketing: are online shoppers loyal shoppers?

Source: Forrester, 2006

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- iPoints UK
  - Acquired by Maximiles in 2006
  - 600 UK partners
  - Exchange points for rewards
  - iPoints credit card
  - 1.9mn UK members
  - Launched in Spain, Italy 2007
- Rpoints
  - 1,200 UK partners
  - 1 point=1p
  - Redeemable for cash or vouchers
  - Community forum
  - Members benefit from posting deals

Three Steps to Cashback

1 LOG ON **2** BUY UP **3** CASH IN
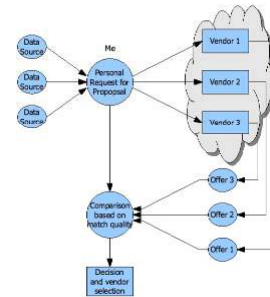
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- Proposed open standard, part of a shift towards smart information filtering - the evolving notion of a " semantic web" - and also a move to expanding data portability
- Allows consumers to take control of their information in a consolidated file, to use where they see fit to their own benefit, giving advertisers and content providers a much clearer picture of what might interest them
- "…consolidated, structured descriptions of people's interests and dislikes. The information about your interests and how much each means to you (ranking) is stored in a way so that computers and web-based services can easily read it, interpret it, process it and pass it on should you request and permit them to do so."
  - Marjolein Hoekstra

Source: www.apml.org; company websites

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The future of loyalty marketing:
VRM – the inverse of CRM

- Project VRM is a community-driven effort to support the creation and building of VRM tools, headquartered at the Berkman Center for Internet and Society at Harvard University
- Building a framework that sets standards and protocols for a category of tools that enable individuals and organizations to relate and transact on more equivalent terms
- **What's in it for the individual?**
  "The ability to manage and analyze your data will give you better knowledge about yourself…The awareness of your preferences, understanding of your needs will help you to articulate them easier and strengthen your position with vendors."
- **What's in it for businesses?**
  We live in an increasingly decentralized world with more customer choice, yet vendors continue to fiercely collect and control customer data and exploit the opportunities therein. The ultimate goal of VRM is better relationships between customers and vendors, by considering and constructing tools that put the customer in control of their data and ultimately their relationships with other individuals, companies and institutions.
- **Benefits of 'letting go' of customer data:**
  - Customers share the burden of storing and protecting the data - eases compliance, privacy & security concerns
  - Increased access to information about customers - direct benefits to the customer to share more data rather than less.
  - New services from previously unavailable access to customer data

Source: Berkman Center for Internet and Society

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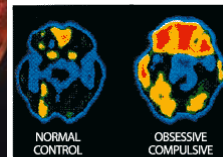## The future of loyalty marketing:
neuromarketing?

- "The creation of environments saturated with computing and wireless communication, yet gracefully integrated with human users"
  - wearable and handheld computers,
  - high bandwidth wireless communication
  - location sensing mechanisms
- Brain Science
  - Improving awareness of social behaviours
  - Brain scanning, neuroeconomics and neuromarketing
  - Beware the 'cognitive paparazzi'

Wi-Fi a basic human right, says SF Mayor

NORMAL CONTROL   OBSESSIVE COMPULSIVE

HIGH ENERGY USE IN THE BRAIN OF A TYPICAL PERSON WITH OCD

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