

RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

Alan Snyder wrote this interesting piece on the erosion of margins due to Customer Loyalty and Frequent Shopper programs. Frank Dell, wrote the adjunct piece on the perspective on the same problem, but from the perspective of the supermarket segment of the retail industry.

Bob Amster



Principal

PROTECTING YOUR MVCs (MOST VALUABLE CUSTOMERS)

By Alan Snyder

The Price-Promotion Dilemma:

Retailers historically use price to drive customers to their stores¹. This price-driven marketing strategy becomes more prevalent during difficult economic times, as the need to attract both new and existing customers and convert them once they are in the store becomes an operating mantra. Some retailers even talk about the 'poison of promotion.'

Certainly the philosophy sounds like it makes sense – draw more people (can't sell if they aren't there), sell these people at an acceptable conversion rate (entice a high percentage of people who enter the store to buy), and put money in the till (that's why you are in business).

What's Wrong With This Picture?

What is wrong is that using price promotions to attract new and existing customers means, by definition, reduced gross margins, and obviously lower profits. Unlike the old retail

joke that says that "you make it up on volume", this approach WILL have diminishing return, the magnitude of which depends on the nature and level of discount offered and the sales being generated.

Don't get me wrong, price promotion definitely has a valued and time-honored place as part of a retailer's marketing mix (as you will see). The operative word here is "part." Why give away margin to your better/best customers (defined as MVCs when you have them in the first place. There is much that you can offer – beyond a lower price – that these MVCs value, that will foster a stronger relationship and build loyalty to your store, since these customers shop with you anyway.

Marketing Based on Customer Segmentation:

Historically, retailers could not easily segment customers based on their value. It was too complex. However, with technological advances (including databases that range from basic to sophisticated and supported by marketing analytics), it should now be a core competency for most retailers to implement a targeted and tailored marketing program based on both customer segmentation and the value of their customers.

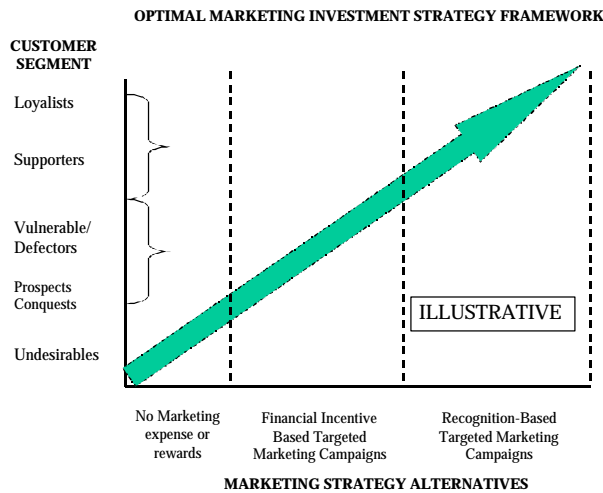
¹ In this article, "store" refers to the brick and mortar environment, as well as all non-store channels including direct marketing and the Internet.

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A high level framework (and this typically would be refined and sub-categorized based on an individual retailer's desire and/or ability to create a more sophisticated segmentation framework and offer schema) for their particular business could be as follows:



store. They may or may not be loyal customers of a competitor that you would like to conquest.

- *Action Plan / Investment Strategy:* Create a marketing campaign that is intended to attract these potential customers to shop. If you know something about their attributes, interests and/or needs, the campaign can be based on non-price incentives or rewards focused on what they value. But do not be afraid to invest marketing dollars and price promotions to incent them to shop – you will get ROI!

Customer Segment Definitions and Marketing Strategy Action Plans:

Undesirables:

- *Definition:* These are potential or existing customers that cost you money, either always by purchasing items that are only on sale/deep discount, and/or making purchases and making returns (witness the recent incident where Filene's banned two customers from shopping in their stores, or the high-end specialty department store customer who purchased over \$100,000, but returned over \$90,000)
- *Action Plan / Investment Strategy:* Do NOT invest in marketing to this segment, and do NOT provide any incentives or rewards for shopping at your store. Let them go elsewhere.

Prospects/Conquests:

- *Definition:* These are potential customers that appear to have attributes that you desire, and you would like to incent them to shop your

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Vulnerable/Defectors:

- *Definition:* These are existing customers that you believe may defect (through attrition analysis), or have recently defected to a competitor (winbacks). You had them, and you lost them. And your customer value analysis indicates that they are profitable to you.
- *Action Plan / Investment Strategy:* You may want to undertake some market research to find out why they may be defecting, and tailor your marketing campaign based on your findings, and this may include non-price incentives or rewards. But be willing to invest marketing dollars and price promotions to bring them back to your store. They know you, and if you can satisfy their needs, they will be retained/return.

Supporters:

- *Definition:* These are existing profitable customers who shop in your store on a regular basis, but you have a smaller share of their wallet since they still shop and spend significant dollars at your competition. You would like to move them up the loyalty ladder to MVC status and ensure they always think of you first when planning to shop.
- *Action Plan / Investment Strategy:* Although they may be incited by price, they may be looking for something that they would value more than discounts. Since they have been shoppers, you already know something about them. Develop an approach that is based on non-priced personal recognition rewards and incentives. Use this approach to develop a communication program to let them know you appreciate and value their business.

Loyalists:

- *Definition:* These are your MVCs. They spend most of their dollars in your category in your store. The Pareto Principle states that 20% of your customers contribute 80% of your revenues (and a higher proportionate

percentage of profits). You do not want to lose them, but rather make them feel they are a valued part of the "family" and your store is always top-of-mind.

- *Action Plan / Investment Strategy:* Create a marketing campaign that is driven by Recognition rewards that have high psychological value, but are less expensive to administer and deliver. This includes personal recognition, gifts, birthday cards, free fashion shows, breakfast with the store manager to discuss trends, etc.

The Bottom Line (No Pun Intended):

Don't depress your bottom line profitability by giving price incentives to customers who are not necessarily driven to your store by these promotions, and more than likely will continue to shop at your store for reasons far beyond price.

- A store's loyalists, and to a large degree their supporters, are typically motivated by non-monetary incentives and recognition rewards, as well as the service, selection, and ambiance delivered by the store. All of these factors transcend price promotions for these segments.
- Your bottom line will improve significantly since your loyal and supportive customers represent a significantly higher percentage of your stores sales, and these sales will be more profitable.

SO THE BOTTOM LINE IS: DON'T GIVE AWAY YOUR BOTTOM LINE.

The View from the Supermarket

By Frank Dell

Most Frequent Shopper programs are failing on their promise of retaining customers. Retailers had added the cost of these programs without increasing sales or retaining customers, all the while reducing their gross margin. In their present form, the majority of these programs will go the way of

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the supermarket stamp programs of the 50's and a great opportunity will have been missed.

The vision for Frequent Shopper programs is valid, as a few retailers have proven. Utilize technology to collect information about customers. Analyze this information to understand the customers. Adjust the merchandising mix to fix customer perceived problems. Significantly reduce mass advertising in order to pay for the program

and for targeted customer communication. Use this targeted communication to introduce new products, meal planning and encourage shopping the whole store.

Just lowering the price is not the answer. A clean store is still the number one reason consumers select a store in which to shop.

WHAT'S NEW

Visit our Web site!

You can read about us at www.RetailTechnologyGroup.com.

CRS Retail

RTG is providing specialized services to this developer of POS and other software in connection with the implementation of CRS' solutions suite at a regional footwear retailer.

New – RFID Practice Area

We are pleased to announce that we will begin providing a new service to retailers, and suppliers to retailers who wish to adopt RFID technology.

The suite of services will consist of

- developing a business case for RFID adoption,
- help in selecting the appropriate technologies,
- identifying appropriate trading partners,
- developing the processes around the implementation of RFID,
- developing the implementation strategy,
- and managing the implementation process.

RTG has partnered with various strategic providers of technology and systems integration to deliver a full complement of services. We plan to provide services in inventory management, and supply-chain management at the item, case and pallet levels; and also in customer management, for customer loyalty and payment methods.

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