

Creating Loyal Customers

Rewards programs begin by finding the right fit for each chain, but they ultimately must satisfy your core consumers.

By Len Lewis, Contributing Editor

FACED WITH RAPIDLY ESCALATING costs, cutthroat commodity pricing and broader competition, the time is right for convenience stores to adopt more aggressive loyalty marketing programs that will attract new customers and reward existing ones.

For nearly 80 years, loyalty and frequent shopper plans have proven to be highly effective promotional and brand-building tools for businesses ranging from airlines to supermarkets. This is underscored by industry estimates indicating that these plans have attracted more than 1.3 billion members in the U.S. alone, most of them concentrated in the financial services, travel and retail sectors.

That number is continuing to grow, with many of them involving fuel rewards. Approximately 40% of food retailers presently offer some type of loyalty program, and about 75%



EXPRESS REWARDS

LOOKING FOR A NEW tax accountant? How about a local bakery? The search may be a little easier—and more lucrative—thanks to the highly successful loyalty marketing program at Express Convenience Stores.

The 19-store Wisconsin-based chain, which is operated by US Oil Co. Inc. and has units from Oshkosh to Green Bay, launched its GoFor Rewards program in June 2006 in conjunction with Outsite Networks. Since then, consumer response has been tremendous and has helped build the Express brand, said Kelly Dewey, the sales and marketing manager who oversees the program.

“Essentially the purpose was to build our brand and loyalty in the community. We wanted to do something that would keep our guests coming back,” Dewey said. “I receive stacks of comment cards daily with customers telling us that they come to the store specifically for the rewards program.”

Tailored Solution

Three elements underscore the program’s success, according to Dewey. Foremost is the value it brings to consumers. Second, it represents something completely different. “There are a lot of cookie-cutter programs out there but we strive to do something different than our competition.” Finally, there’s execution. “There’s a lot to these programs and you must have dedication and staff to pull it off,” she said.

The depth of the program is certainly a big reason for its popularity with consumers. “Most loyalty programs have one or two facets to market. Ours is multi-faceted and includes daily, monthly and annual rewards,” Dewey said.

Using a key chain tag, consumers earn 10 points for every gallon of fuel and 20 points for every in-store purchase. They can earn daily rewards and they can also accumulate into monthly rewards. The goal is to reach a higher level each month, thus receiving more valuable benefits. These reset at the end of each month and Rolling Rewards Points reset after someone has been in the program for one year.

Customers also earn points through the stores’ Random Rewards Program and sweepstakes giveaways. The sweepstakes are a \$5,000 value each month and anyone who swipes their tag during the month is entered.

Another valuable part of the program has been what Dewey termed “fusion” marketing. “It’s a ‘you scratch my back I’ll scratch yours’ thing,” she said. “We do a lot with community partners who donate prizes to our program. In turn, we send our guests to their location by advertising their businesses in our stores and on our Web site (www.expressconvenience.com). It’s a win-win for both parties.”

While Dewey is very satisfied with results to date, the company is always looking for a fresh angle. “We’re playing around with using double points for cash to combat some of the credit card fees and we’ve got a few more tricks up our sleeve that will be coming out soon. Basically, we’re always looking for new ways to bring benefits back to our communities,” she said.



of their customers participate in those programs, according to the Food Marketing Institute (FMI).

Recent examples include Richmond, Va.-based Ukrop’s and Roundy’s Pick ‘n Save Supermarkets in Milwaukee, both of which have signed on to the Fuelperks program that allows customers to save 10 cents per gallon when they spend \$50 using their store loyalty cards.

In May, CSD reported that one of the largest chains in the nation, The Kroger Co., of Cincinnati, initiated its 1-2-3 Rewards MasterCard program, enabling customers to earn up to 15 cents off per gallon.

C-STORE SOLUTION

Given lower transaction sizes and limited traffic in c-stores, the question is how they can best initiate, participate and profit from loyalty programs with a minimal upfront investment and a realistic return.

At present, relatively few c-stores nationwide offer more sophisticated programs, despite the fact that gasoline has become the “ultimate currency” for loyalty plans. However, many more are said to be on the fence and about to jump on to the loyalty bandwagon.

“It’s one of the faster growing segments of the industry,” said Rick Ferguson, editorial director of COLLOQUY, a magazine focusing on the global loyalty marketing industry. “The problem was that five years ago, the technology was a bit prohibitive and required a big upfront investment. Chances are you would have had to change POS systems or put in kiosks to build the IT infrastructure in the database. Today, a lot of Web-based platforms and software ser-



vice companies are more affordable. That's made it easier for retailers to get in the game."

Anton Bakker agreed. He's founder and CEO of Norfolk, Va.-based Outsite Networks, one of the pioneers in turnkey loyalty programs and database management for c-stores. "I'd say there are sophisticated, integrated loyalty systems in place at about 5,000 stores right now. The horse is out of the gate and not going back," he said.

True loyalty marketing is a horse of a different color and far different than the familiar punch-card programs that have been a fixture for so long.

"Those don't build relationships because you're really not learning anything about them," Ferguson noted. "A loyalty program has specific goals like identification. You want to know who the customer is and be able to track their behavior. By building up that information, you can give them offers that will change their behavior in profitable ways—whether it's getting them one more time a month or convincing them to consolidate fuel purchases with you."

Some c-store programs enable retailers to engage in data mining for core customers. But as Ferguson noted, "You

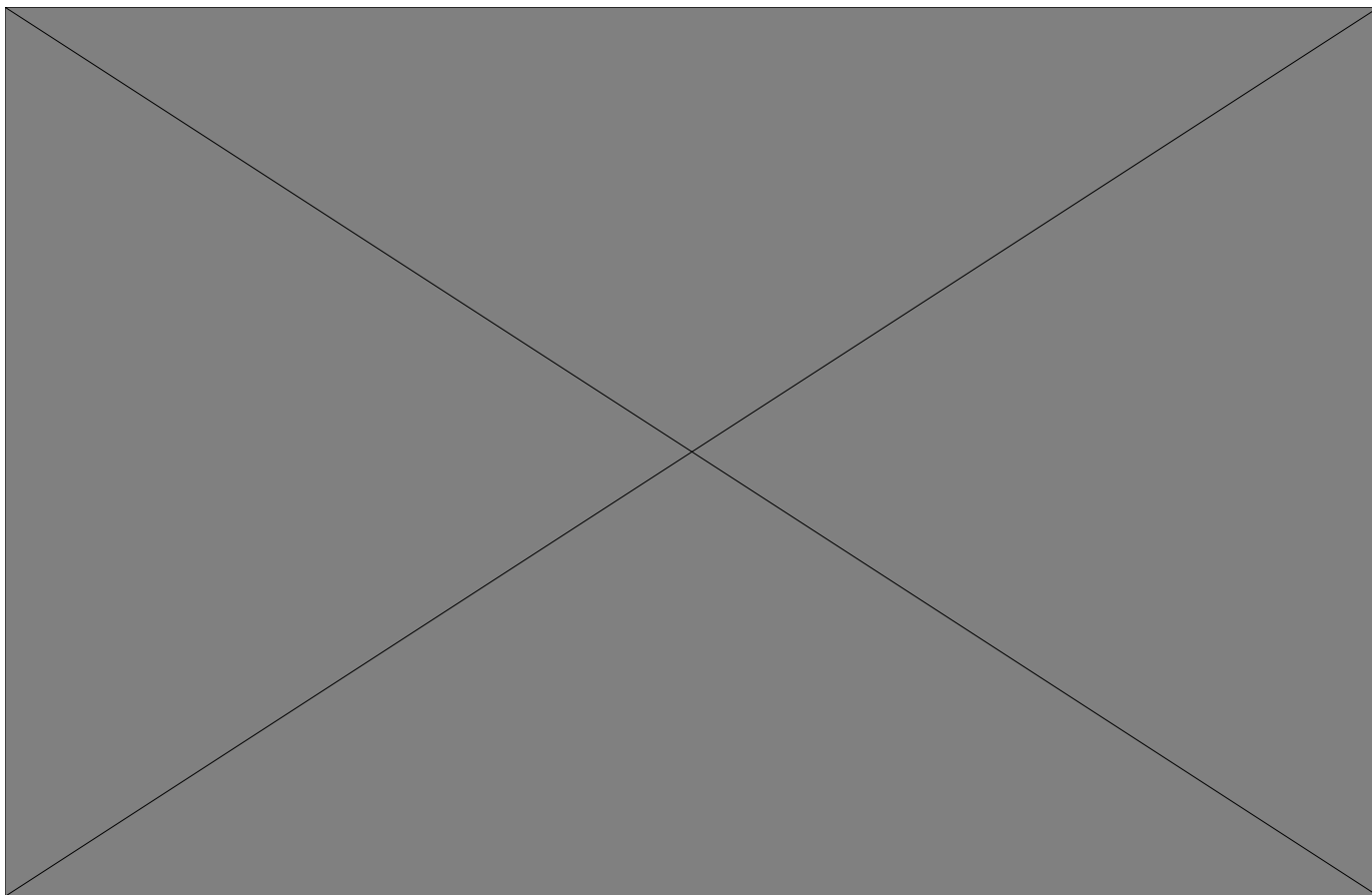
have to walk before you can run and even the best marketers in the travel industry are not as sophisticated in data analysis as they'd like to be."

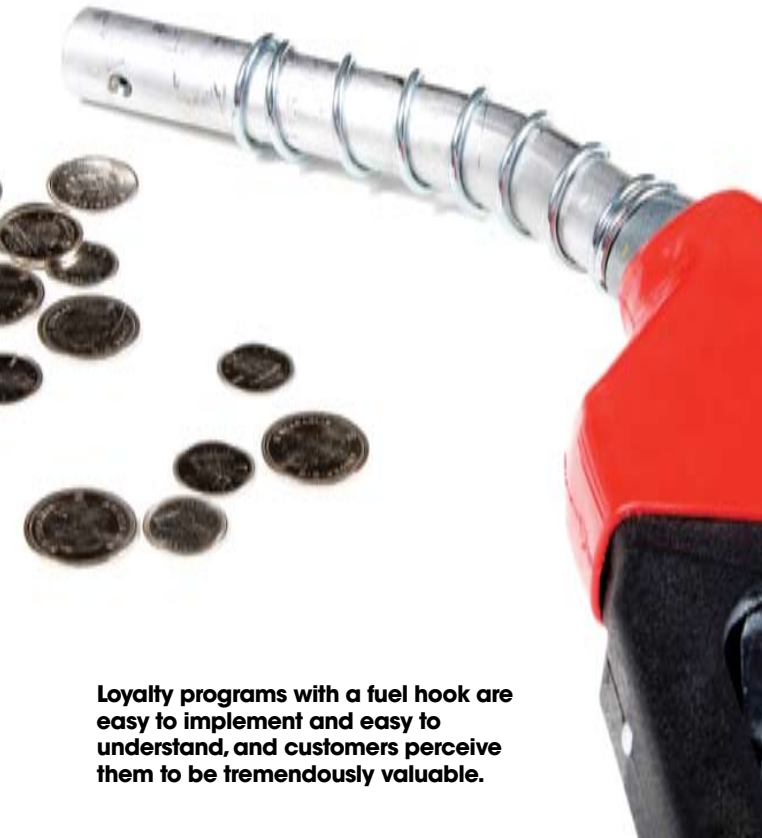
One of the issues is that many tools now available are more focused on customer retention than sales lift. "Some people are already buying as much from you as they can. They can't buy more gas, soda or cigarettes," Ferguson said. "Those are the ones you want to keep from gassing up at Wal-Mart or Sam's Club by launching an awards program that lets them know you value their business."

FINDING THE TOOLS TO SUCCEED

Technology may be the key. One of the most important initiatives is PCATS—Petroleum Convenience Alliance for Technology Standards—a working group of retailers and vendors that is continuing the standards work begun by the National Association of Convenience Stores (NACS). Essentially, these standards will result in "plug-and-play" scenarios for more sophisticated loyalty marketing programs.

The challenge for most c-stores: They often sell the same items as supermarkets, which pits them against each other





Loyalty programs with a fuel hook are easy to implement and easy to understand, and customers perceive them to be tremendously valuable.

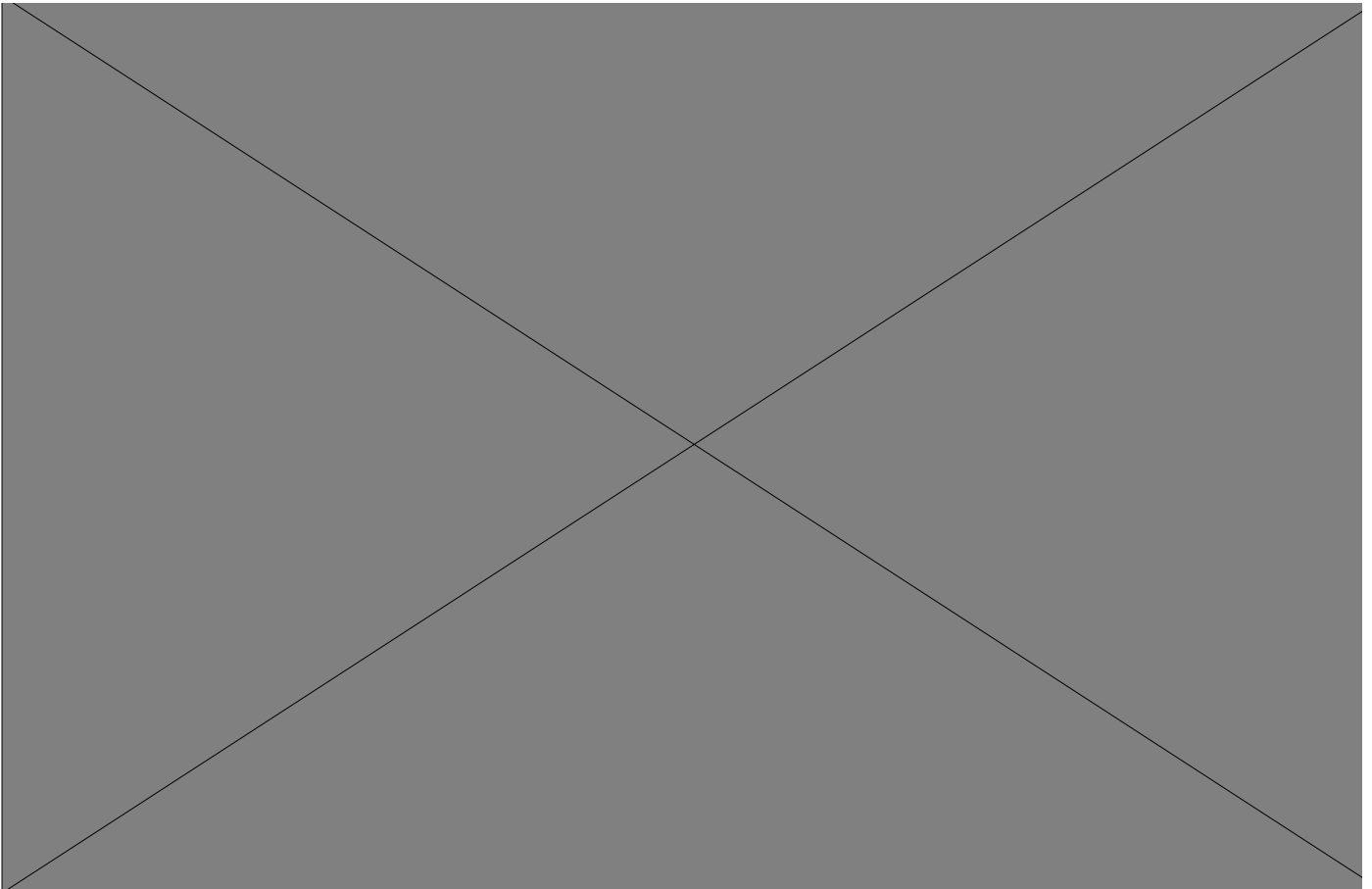
for the loyalty of the same customer. Nonetheless, c-stores can gain an advantage with one-on-one communications such as the program offered by Outside Networks. "C-stores have customers at the pump for a couple of minutes and they can literally use that time to talk them into the store," said Bakker.

The system enables retailers to "talk" to every consumer at the pump and to make that talk relevant. "For example, if consumers buy milk, you can put them into the milk club and play audio messages telling them they can get one free after five purchases," Bakker said. "You can do that for virtually every item in the store and link it to a specific time frame such as purchasing four items during the month to get one free. Essentially, you are offering different reward programs for every customer.

Bakker noted that if someone is a member of the milk club, there is little need to remind them about milk rewards. Rather, the program enables retailers to upsell or cross sell them. "If someone buys coffee, give them a free doughnut as a one-time reward. If they start buying doughnuts you no longer have to offer it as a reward," he said.

FUEL HOOK

With gasoline being the currency of choice for loy-



COMMUNICATION
Your goal: Get them signed up.

Ask every customer at checkout:
"Do you have your Rewards tag?"

Encourage customer:
"Sign up—it's easy and totally FREE!"

Answer customer concerns:
"Don't worry—We won't share any of your personal information."

Get FREE Gas Here!

FastBack Rewards members could receive up to \$100 in FREE GAS EVERY DAY!

100 winners each day in August.
 Just swipe your Rewards tag to see if you're a winner!

LOYALTY IS REWARDING
 SIGN UP—IT'S FREE!

Advancements in technology have brought loyalty-program costs into a realm more acceptable to most retailers. Web-based platforms and software services companies are offering more affordable alternatives to revamping entire POS systems or elements of IT infrastructures, said Rick Ferguson, of global loyalty marketing magazine COLLOQUY.

alty programs, COLLOQUY's Ferguson said consumers are still likely to drive down the road to get a penny off regardless of another store's offers. "This is why the emphasis has been on fuel rebate cards which are fairly easy to implement, easy to understand and perceived as something of value—even if customers just get \$1 off a tank," he said.

As c-stores move forward, the question is whether chains and independents can afford not to have some sort of loyalty marketing program "They're running out of time," said Bakker. "Next year, you're going to see a lot of activity in this area. I can tell from all the interfaces that are being developed for cash registers and gas pumps."

However, he warned retailers not to rely solely on equipment providers. "Wherever you go for your loyalty program, make sure you also get the service. It's an ongoing operation and needs the support of account managers who can check on how well a program is doing on a day-to-day basis."

As for return on investment for these programs, "It depends on how well you drive them," said Bakker. "The average loyalty member frequents three different stores—one on the way to work, one on the way home and one on weekends. If you can get them to consolidate their regular purchases, you can pick up one or two additional transactions per month. Some stores have gotten a return in six months but those are the ones that have become entirely consumer-centric."

It is important for retailers to do the financial modeling or due diligence up front to avoid situations where

they can lose money quickly. "Before you launch a program, understand what you can afford and how rich a reward you can offer customers in order to get the return you expect," said Ferguson. "You must understand how much your costs will rise as you enroll more members. You should also look at the worst-case scenario, which is when none of your customers pay attention to the program and you don't get your initial costs back."

This modeling is far different for c-stores than supermarkets.

"You may have customers coming in three or four times a week for a cup of coffee and a pack of cigarettes. But it's challenging to offer them something of value when the transaction size is that small," Ferguson said. "If you can devise something that gives them a free cup of coffee or a hot dog or a car wash every couple of weeks—rewards that don't cost you a lot—everybody feels good. These are the rewards that work well in c-stores."

Ferguson agreed with Bakker and other observers that coalition programs with other retailers like restaurants offer great opportunities.

"Everyone is offering a common reward currency and you can get into the game for less since costs are shared with other participants," he said.

But the challenge is getting them to work on a national scale. "Most coalition programs tend to be regional at this point because the U.S. market is so diverse. But we will see the launch of a national program at some point. It's a matter of getting the right partners together." **CSD**