



Triggering a Response

Loyalty programs tap into customer psyches to change behavior

By Angel Abcede

aabcede@cspnet.com

Comparing a valued customer to one of Pavlov's dogs may sound politically incorrect. But petroleum retail and convenience-store operators who've delved into loyalty programs know the right combination of fuel rebates, sweepstakes prizes or buy-one-get-one freebies can make anyone salivate.

For retailers and loyalty providers focusing specifically on the c-store customer, finding the right incentives to trigger that extra purchase or additional visit is a science that understands not only what makes people react, but also the dollars and cents that support the rewards.

"One of the challenges in designing a loyalty program is coming up with the right offering—one that's going to appeal to customers but doesn't break the bank," says Patrick Lewis, CEO of KickBack Points LLC, a loyalty rewards business, and owner of Oasis Stop 'N

Go, a 14-store chain based in Twin Falls, Idaho. "We've interviewed our customers, and when you ask them why they would pick Business A over Business B, they might say it's because [Business A] has the lowest price on everything. But [those customers] will be unconsciously lying."

A discount on price will always appeal to a certain type of customer, Lewis explains, but not every customer is going to be motivated by price alone. They may tell a pollster that price is most important, but they drive expensive cars and they live in affluent neighborhoods.

"Every decision a customer makes

is a balance between quality, convenience, service and price," he says. "[People] don't make purchase decisions without including those elements."

Retailers and suppliers in recent years have garnered a lot of experience balancing the psychology behind rewards systems and the numbers that make such an endeavor profitable. Some of the lessons specific to the c-store customer include:

► Gas is important. Especially when prices were blowing past the \$3 ceiling last summer, people equate having to pay more for gasoline with sacrificing something else, so fuel rewards become a powerful incentive.

"If every person is not behind [the loyalty program], then it fails. We've seen it with our competitors. For us, our people are brainwashed with it."

DOUG DEWESE *Deweese Enterprises*



SWEEPING UP: Doug Deweese (right) uses sweepstakes to drum up excitement and participation in his company's loyalty program.

► Sweepstakes do well. They entice people to either use their cards or to sign up if they're not currently members, and the company also benefits from spending a fixed amount to attract a high degree of customer participation. With sweepstakes, a retailer doesn't have to spend money on each customer but garners an overall lift in participation, sales or both.

► Not all customers are the same. The characteristics of customers who go to a discount-fuel chain are not the same as those who visit a site known for upscale offerings. These customers respond to different types of rewards.

► Increasing "share of wallet" has become the retailer's brass ring. Though changing customer behavior may be the broader goal, retailers who have studied their loyalty-driven sales data see the real achievement is getting customers to spend less at competing locations. Put another way, the ultimate goal is to have customers consolidate their spending, from an average of three

sites to one—with that single location belonging to the retailer with the strongest loyalty program.

► It's not just one thing. The answer lies in a continuous ebb and flow of promotional efforts tied to the rewards program. Retailers must actively keep programs alive by changing things up, talking about the latest promotions and encouraging continued participation. Sometimes retailers involve non-competing merchants, offering a "coalition"-based program. Others simply eat, sleep and breathe their programs day in and day out.

Ask Doug Deweese. Last year, his Meridian, Miss.-based chain of 42 Super Stop! c-stores gave \$10,000 to the lucky customer who redeemed its one millionth \$1-off coupon. Deweese, CEO of Deweese Enterprises, which has deployed a loyalty program from Outside Networks, Norfolk, Va., says the specific strategies and promotions change over time.

"We like to keep it fresh because we

know that when you have a different campaign, it gives people something to talk about in the stores," he says. A sense of community is the secret to any great rewards program, he believes.

Asked if a loyalty program changes people's behavior, he says that last year consumers "faced the highest gas prices in history. Most of the industry has lost gallons per location, and we never experienced a loss of business. What we experienced were volume increases, and we effectively accomplished that with our loyalty program."

Whetting Appetites

If a retailer is actively shopping for loyalty programs or has one and is looking for ways to increase participation, those who have been in the game for a while agree with Deweese, saying that people respond to different strategies.

Beyond fuel discounts and sweepstakes promotions, common among the strategies are points-based or rebate programs, where individuals earn points with each purchase that they can redeem at loyalty locations (including partnering businesses); the old "buy-one-get-one-free" standby; more elaborate multitiered rewards programs in which loyalty members get certain privileges that non-members do not; surprise rewards that customers win at random; and food or merchandise discounts tied to related purchases.

Deciding what specific strategy or hybrid tactic to employ begins with understanding the customer. Taking the simple distinction of a price-conscious demographic vs. a customer base concerned with amenities such as product quality or convenience, Lewis of Oasis Stop 'N Go says that the discount-minded demographic may have

Loyalty Do's and Don'ts

For retailers looking to delve into loyalty or improve upon what they've already started, Anton Bakker, president of Outside Networks, Norfolk, Va., has a short list of do's and don'ts:

Multiple methods. Look for a program that allows for different types of reward structures, which offers customers variety over time.

Cover all fuel brands. Multibranded retailers should find a program that can access all their gasoline brands, so the entire chain can participate.

Consider automated recruitment. Taking the pressure off people and putting the recruitment element on technology may be a way to address challenges with employee training.

Item-level tracking is key. Without it, retailers will not be able to distinguish items or be able to track the effectiveness of brand-specific promotions.

First-mover advantage is critical. Loyalty programs, if done well, can encourage consumers to forgo competing locations, so the first player to engage the market may have an advantage.

Scout out merchandise vendors who can help. Vendor participation may help fund the rewards system a retailer needs to float the program in a cost-effective way.

Have the ability to communicate the program. Without communication, customers will not know what they may be missing. So point-of-purchase signage, audio messages or video feeds can play important roles.

Link rewards to what is psychologically important. This may be fuel rewards but it could also be an intangible, such as the convenience of post-pay.

one simple trigger: price. In that case, retailers must use price to increase frequency rates or encourage in-store purchases. Little wiggle room exists in that such a customer may be more interested in hunting for the best price vs. building rewards at any single location. Still, offering a discount to loyalty club members may prove worthwhile.

The second type of customer in Lewis' scenario has different hot buttons. Many of these people respond to rewards that are completely free to the retailer. He says these rewards include "preferential treatment, as when an airline offers first-class customers the opportunity to board the plane before everyone else, or recognition strategies like offering a silver, gold and platinum level, where customers get the bragging

rights of having a platinum card."

The key is perceived value, Lewis says: "Take someone who wins a car wash, for instance. That car wash in his mind is worth \$7. To you, it's \$1.13 in chemicals and wash. And that perception will stick with [the customer] through the next transaction and the next transaction. Your prices may be 5 cents a gallon more, but in his mind, he's still \$7 ahead."

Rebates also make sense for this type of value-oriented customer. Points-based programs take the focus off price, allowing the customer to consider the value of each visit as counting toward a cumulative reward. It's a system that rewards the most loyal of customers, without giving discounts to those who would have purchased gasoline with or without the break in price.

"In the end, the rebate is cheaper than the discount," he says. "But you've taken care of your loyal customers while making full margins on customers who would buy anyway at the higher margin."

Importance of Fuel

Understanding the c-store environment is the first step in striking the right balance for a successful loyalty program, says Anton Bakker, president of Outside Networks. He says the petroleum retail and c-store space has two qualities that set it apart from other channels: on average a smaller ring at the register, and the lure of fuel rewards.

First, with the average ring of \$4 to \$5 inside, a c-store differs dramatically from purchases at a grocery store or for an airline ticket. As a result, the rewards structure reflects what a business can sustain. That's why, according to Bakker, sweepstakes make sense. "With such a small average ring, you can't on a transaction level give them each a huge reward, so you give them the chance for one," he says.

Secondly, Bakker says the psychology of a c-store customer revolves around the fuel reward. With fuel being a "mandatory" item, people link the more expensive cost of gasoline to making sacrifices such as not being able to visit relatives or taking vacations closer to home because they can't afford the gas. "If it's the difference between a dollar's worth of reward and a dollar's worth of fuel," he says, "fuel is much more powerful."

Jim Lynch, owner of six stations under the Mr. Gas name out of Burley, Idaho, says fuel plays a big part in why his customers participate in his loyalty

program. “Here in Idaho, people have less income, so if they haven’t been paid for a while, they use their rewards to get fuel,” he says.

Lynch has had the KickBack program in his stores for five years and has experienced high redemption rates and double-digit increases in inside sales despite skyrocketing fuel prices.

“Retailers spend so much money looking for new customers, we forget the [core] 20%—he’s the guy who makes [us our] money,” Lynch says. “And for us, that 80–20 [ratio] of core customers is 30%.”

Share of Wallet

The big plus behind the technological aspect of loyalty, according to Bakker, is the data that flows from tracking individual spending habits. From data they have collected in more than six years of operation, Bakker says two types of drivers stand out: the professional and the non-professional.

Both types, thankfully, can find incentive in loyalty programs. The professional driver, who is essentially someone who gets reimbursed for fuel by his or her boss, can see benefit in a program if the reward is personal, Bakker says. So in lieu of a 2-cent discount on fuel, a free cup of coffee or a fountain drink may be appealing. Identifying this customer is simply a matter of tracking fuel purchases, with professionals easily doubling the average customer in the amount of fuel they buy during any given time period.

With the second group, the non-professional driver, the retailer may be getting 15 gallons a month in fuel sales. That customer is obviously shopping at more than one location,

possibly the site closer to work or the arbitrary one that the customer passes on weekends. Once shopping patterns identify these non-professional drivers, the loyalty program can target these customers with extra points, providing an incentive to fuel at that particular site only. “Things like double-points Wednesdays can increase business significantly,” Bakker says.

Creating a Package

For retailers just starting out, assembling the pieces of a successful program can take time. Rob Little, vice president of marketing and sales for National Bankcard, Plymouth, Minn., advises retailers to make sure that the program is easy to understand and has a simple enrollment process. “Make it easy and worthwhile,” he says, and make the value for joining clear and tangible. “If it’s easy, they’ll stop; but if it’s not worthwhile, they won’t sign up.”

The next step is creating a value proposition. “It can take so many shapes and forms,” Little says. “I can do a fuel discount, but it might kill me on profit. So maybe I’m more willing to give 5% on c-store goods where I’ve got more breakage and margin. In the end, it’s a combination.”

Ultimately, the retailer is trying to influence buying behavior as a customer moves through the store. “You’re typically going to focus rewards where you’ve got a competitive advantage,” he says. “That may be with the car wash or with milk.”

The fine-tuning, Little says, is a process, one that retailers can adapt over time.

Discovering the nuances of what works with customers may be second-

Tactical Maneuvers

What loyalty tactic works the best for you?

Discount of fuel	29.3%
Coffee/milk club program (buy 10, get one free)	15.0%
Immediate rewards	6.6%
Rebate or points system	4.2%
Sponsor-supported rewards or giveaways	2.4%
Sweepstakes	1.8%
Silver, gold and platinum structure	0.6%
Random rewards	0%
None of the above	14.4%
Some or all of the above	25.7%

Source: Kraft/CSP Daily News Poll.
Based on 167 respondents.

ary, however, to the topic of execution. According to Jane Sinn Gabriel, retail solutions manager for The Pinnacle Corp., Arlington, Texas, a company has to tie what it does in marketing to the loyalty program.

“The loyalty program becomes a large part of their marketing effort,” Gabriel says. “It’s their reputation. They want it to be successful. They’re not going to want to offend current customers and they don’t want to put something out there and not commit to it.”

In talking with retailer customers, Gabriel says success rides on the ability of store-level personnel to promote the program and become involved in selling it to customers.

“[Employees] have to be enthusiastic about it,” Gabriel says, and employee incentives tied to customer usage are critical.

Deweese of Deweese Enterprises agrees. “If every person is not behind it, then it fails,” he says. “We’ve seen it with our competitors. For us, our people are brainwashed with [the program].” ■