

ANALYSIS

Beyond retail, loyalty schemes offer much more than discounts, something the high street must adopt if it wants shoppers to feel truly valued, says **Susie Mesure**

The loyalty lessons retailers can learn from other sectors

What is the price of loyalty? For retailers such as John Lewis, Tesco, Sainsbury's and, more recently, Marks & Spencer, it is a costly reward programme that compensates customer devotion with special offers and access to exclusive events. For others, such as Asda, Lidl and, from January, Homebase, it is investing in everyday low prices.

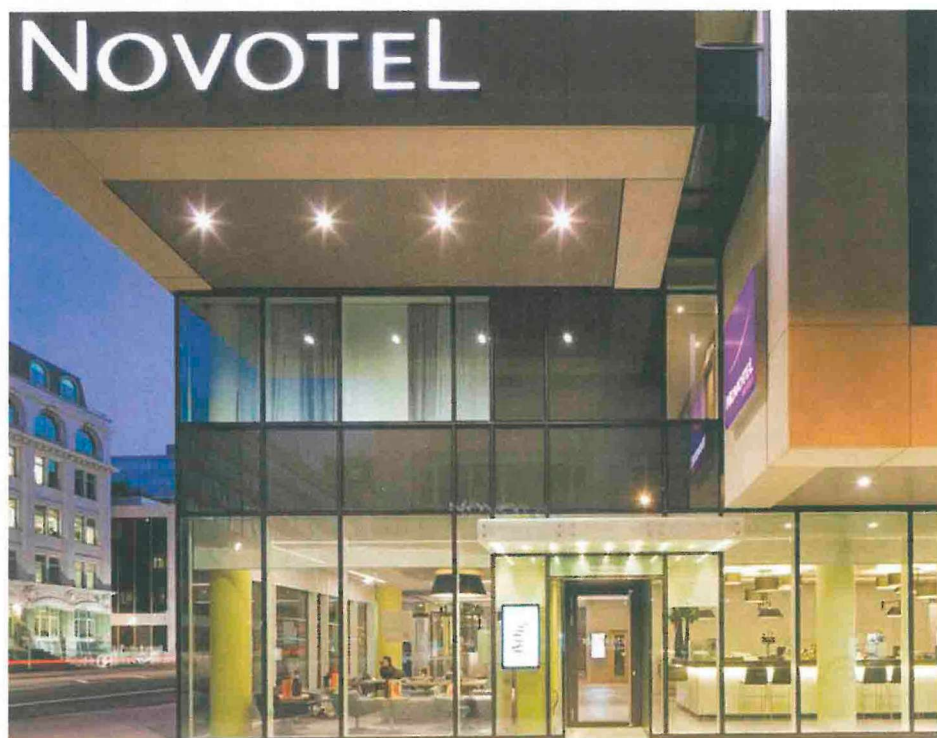
The decision by Australian group Wesfarmers, Homebase's new owner, to end the DIY retailer's relationship with the loyalty scheme Nectar has revived a debate that splits the sector like no other. But isn't simply cutting prices a bit, well, simplistic? Aren't today's sophisticated shoppers after something more? And if so, what?

One answer comes via a text from my mother. She is flying to Chicago for a 36-hour business trip and British Airways has just upgraded her to Business Class. Yes, she has a loyalty card; yes, she is thrilled; and yes, most importantly, when she books her next flight it will most certainly be with BA. She also got to enjoy shorter queues at check-in and security, plus, no doubt, a free drink while waiting for her flight.

More than money

Waitrose has cottoned on to the free drink part, offering its myWaitrose cardholders complimentary tea or coffee while they browse the aisles. But when was the last time that same card helped them jump the queue at the till?

Chris Roe is vice-president of sales, distribution, and loyalty at AccorHotels, which runs brands including ibis and Novotel. He points out carrying a Nectar card doesn't mean he gets served any quicker. "The scheme gives me no customer benefits other than a financial reward. Retailers forget loyalty isn't just about



commercialism and giving money back. Wouldn't it be great if you went into Sainsbury's and got fast-tracked through a till?" Accor's Le Club members get to skip queues to check in and out of the group's hotels.

The customer journey

Shell's loyalty programmes manager, Carolyn McKeever, also thinks retailers should look at how hotel groups and airlines make life easier for their customers by, for example, "removing 'friction' from the customer's journey with in-app boarding passes, hotel keys, and so on".

Ever since Tesco shook up the sector with

the launch of its Clubcard in 1995, reward schemes have favoured offering points for pounds, on the premise that the more customers spend, the more they save. In return, retailers get to collect valuable data on their shoppers.

But it is time for a rethink, according to Martin Hayward, an authority on loyalty programmes after a career spent at Nectar's owner Aimia, as well as Dunnhumby, which came up with Tesco's Clubcard. "We need the next phase, which will have to be about truly understanding shoppers and getting the mixture of price discount, service and special treatment right for each individual," says Hayward, who now runs his own consultancy, Hayward Strategy and Futures.

Change is afoot, he adds, at M&S and Waitrose at least, "which are both involving the customer a bit more".

M&S's Sparks card is unusual because the scheme doesn't offer members the chance to

"The rewards people get should leverage purchase history and give something super-relevant"

Hassan Hajji, Ecrebo

For more store news and analysis, visit Retail-week.com/Analysis



save money. Instead, points amassed trigger invitations to special events, priority access to online sales, and even donations to charities. Waitrose cardholders get to choose 10 products from a selection for a 20% discount.

"We are meant to have seen a new era of intense personalisation from all these loyalty schemes. Every individual is meant to get offers tailored to them, but that hasn't worked yet. Personalisation is not very personalised, and offers are not very useful," says Hayward.

Hassan Hajji, founder and chief executive of Ecrebo, which provides point-of-sale marketing for retailers, agrees. "The schemes we have today treat everyone the same, more or less. But the rewards people get should leverage your purchase history and give you something super-relevant."

Tim Denison, director of retail intelligence at strategy specialists Ipsos Retail Performance, thinks retailers have been under too much pressure to bother focusing on their loyalty schemes. "The grocery sector, in particular, has been fighting price wars rather than trying to leverage loyalty. Inevitably, the push has been towards everyday low pricing rather than trying to generate value through other means."

He adds: "The whole area of loyalty schemes in the UK is really up for grabs. We are really looking for a breakthrough in how they are formed and offered to consumers because happy, loyal shoppers return more often and spend more."

The value of digital

Michael Ross, an analytics whizz who co-founded DynamicAction to help retailers understand customer data, thinks the move online will help companies to make a "land grab" for their highest-spending customers, who can represent between 50 and 70% of their profits.

"Many people are getting fatigued with traditional loyalty schemes. In the

digital world you can be much more creative," he says.

"You can give members sales previews, guarantee priority response to any customer service enquiry, provide free delivery, special phone lines, access to events" – which, Ross adds – "are all things that money can't buy and services with a high perceived value and low marginal cost."

"If you are a VIP customer, and know your email will be answered within 10 minutes, that is a hugely satisfying experience."

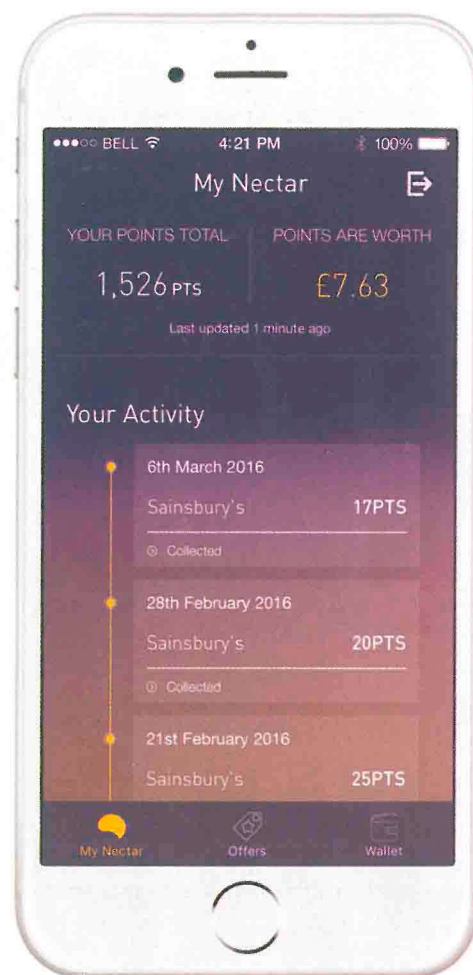
Ipsos's Dennison predicts: "Elsewhere, retailers are banking on providing experiences to keep customers coming back. Millennials like experiences more than products. So we are likely to see rewards become more experience-based, with companies teaming up to offer events that not everyone will get to enjoy."

Make dreams reality

Tesco already allows Clubcard customers to trade points for entry to places such as Legoland, but retailers including HMV are going even further.

Dan Truscott, who runs the music group's pureHMV loyalty scheme, focuses on offering "money-can't-buy experiences" such as access to "meet-and-greet" events with big names including Elton John and Rod Stewart in return for points. "We run more than 400 meet-and-greets a year. We can also put people on the red carpet at major film premieres, send people to film festivals, and offer special events – like get make-up artists to make you look like a character in a movie."

Virgin's new loyalty programme Virgin Red, which it is launching via an app in July, will also offer a mix of savings and "fun experiences", according to James Tipple, UK managing director. "The app helps us to create a loyalty programme that very much puts the consumer at the core of what we do," he says.



HMV requires customers to pay £3 to join its programme, which helps to cover the scheme's overheads and members to feel they are getting "a more premium experience", says Truscott.

Amazon is another retailer that favours a subscription-based loyalty scheme. For £79 a year, Amazon Prime members get free shipping on their orders as well as access to music, TV shows, films and e-books.

Outside the UK, Shell's McKeever thinks we are seeing "more app-based programmes that leverage mobile payment and holistic rewarding across behaviours as well as transaction". In the US, for example, the drug store Walgreens rewards customers for walking, running or cycling a mile.

Meanwhile, Nectar, which last year saw Sainsbury's halve the number of points customers get per pound spent to one, will have to hope that losing Homebase won't impact its scheme too much. Will Shuckburgh, the loyalty programme's UK managing director, maintains: "Loyalty schemes are part of our DNA in the UK; 85% of shoppers are members of one. Saying thank you is central to British culture and we expect brands to say thank you as well."

The pressure is on retailers to make sure customers feel they are being thanked in a way that matters to them.