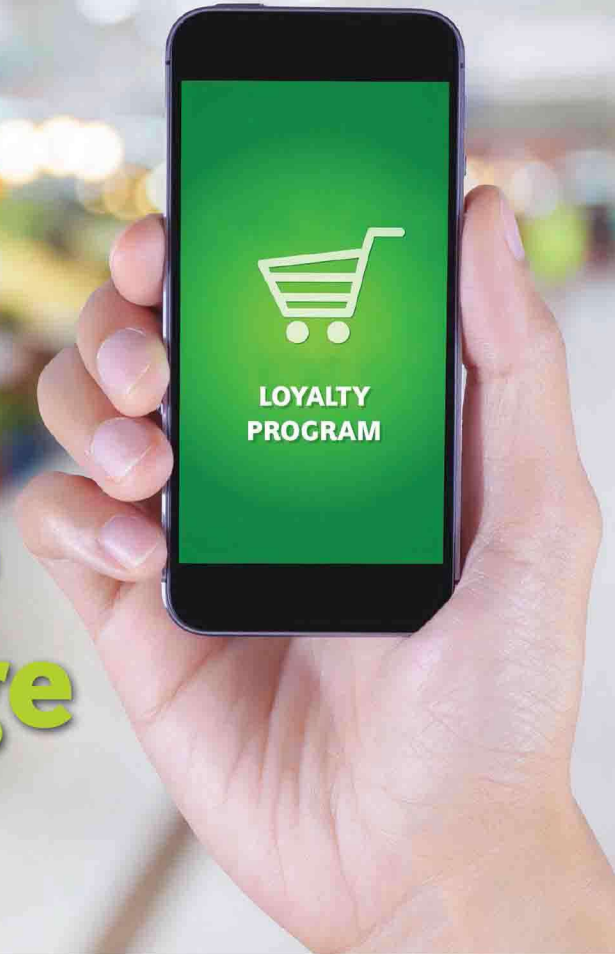


LOYALTY MARKETING Comes of Age



Technology has made such programs more viable for independents.

By David Diamond

Of all of the emerging technologies and marketing approaches taking root in stores, nothing is more complex or controversial than loyalty marketing. From one perspective, loyalty marketing is obviously the best way to focus marketing budgets on the most important customers, to build business among those consumers who already support the stores and to drive profitability while simultaneously improving customer service to the best consumers.

On the other hand, many retailers, in the food business and in other areas, have invested tens of millions of dollars in loyalty marketing only to find that the return on these investments is far from a sure thing. In fact, while some retailers credit their loyalty marketing programs

with driving sales and profits, others have concluded that the effort is a big waste of time and money.

The complexity and high cost often associated with such programs often drove independents away, leaving chains with the marketing budgets, big staffs and technological expertise needed to undertake this sort of project. In fact, as little as five years ago, I would have completely agreed with the notion that inde-

pendents should let the “big guys” play with something as costly and complex as loyalty marketing. But today’s reality is such that the high upfront costs of building a loyalty program have greatly diminished, and the ongoing resources needed to operate a program also have diminished significantly.

Diminished Costs

Creating such a program used to involve the issuance of loyalty cards and assembling a loyalty database. These days, loyalty programs have no need of a physical card — customers can use their cell phone numbers as their IDs, which can be texted or entered into the POS system. The whole process can be managed on a computer or smartphone, and by asking customers to enter their own data, you save a huge amount of cost and get a more

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The Technology Pragmatist

accurate database. Eliminating card issuance and third-party data entry drops the cost per enrolled member from about \$1 to just a few cents.

The database also has become far easier to create and manage. Most good POS systems come with a loyalty module for little or no cost, and that module becomes the database which manages the program. Identifying your biggest and most profitable customers becomes a straightforward exercise. Building applets that allow you to identify consumers who are increasing or decreasing their spending over time is both easy and low-cost. If your POS system doesn't offer a good, inexpensive loyalty module, stand-alone solutions can deliver solid infrastructure at a manageable cost.

Most importantly, the whole issue of database housing and maintenance has essentially gone away or, more precisely, has risen to the cloud. Years ago, data storage raised huge issues: Should I build a huge database infrastructure, which involves costs, overhead and managing aging technologies, or should I outsource — but to whom, and on what terms? These days, the cloud provides low-cost, instantly scalable, highly reliable data storage in a variety of configurations. Companies like AWS (Amazon Web Services) and Google Cloud deliver a level of cost savings, flexibility and quality that was simply unimaginable 10 years ago.

Targeted Messaging

Communication becomes far simpler as well. Instead of worrying about expensive direct mail and customized fliers, you can simply use a combination of targeted emails, text messages and customized websites (built “on the fly” after the ID is entered) to provide a steady stream of rich, meaningful, relevant information to your best customers. Building an integrated, highly targeted communication program for loyalty members becomes affordable and profitable.



The remarkable part of the technological advancements we're seeing is not so much that new technologies create new things to do, as that new technologies make existing approaches easier to use and cheaper to execute.

Developing the right kinds of targeted offers for each group of consumers may be a bit of an intellectual challenge, but once you figure out some basic programs to appeal to basic groups of consumers — demographic groups, psychographic groups, new arrivals, declining shoppers, etc. — you quickly develop an evergreen arsenal of relevant programs designed both to deliver value to your customers and improve profitability for you. You don't need to redesign the program over and over — simply build a solid program once, and use it as needed.

Smaller retailers might still not have direct access to the large marketing budgets offered by the global consumer packaged goods companies, but by focusing on developing programs that specifically drive the retailers' own needs — improving volume, profitability and retention among their best shoppers — independents have the opportunity to use loyalty marketing to drive their own agendas without adding to the confusion caused by simultaneously driving the manufacturers' agendas.

With all of the technological advances, the best news of all is that loyalty marketing is now affordable and achievable for independent retailers. This innovation is changing in ways that allow technology to trickle down to the little guys so much faster. As Big Data migrates to the cloud, Big Data innovation becomes highly available to all comers, regardless of size. All of a sudden, the newest technological and analytic approaches become affordable for everyone.

Machine Learning

I recently came across a great example of how technological progress can

make previously unachievable approaches quite manageable, even for an independent retailer. Not long ago, I spoke with Dean Pacey, partner and VP of business development at Daisy Intelligence, a data analytics company based in Toronto. Daisy has developed a cloud-based approach to using artificial intelligence — or, more properly, machine learning — to mine retail data, including loyalty data.

While the analytics are highly advanced, this approach can serve a smaller retailer. All of the data are managed in the cloud, requiring no new hardware or software. The machine-learning process asks the questions as well as providing the answers, eliminating the need for high-priced analysts to run the process. And most importantly, the system can work on a small scale — an interesting initial project could be

fielded for just \$25,000 to \$50,000.

The bad news in all of this is that all of the excuses that independent retailers have used over the years to avoid making a commitment to loyalty marketing are quickly becoming just that: excuses. The remarkable part of the technological advancements we're seeing is not so much that new technologies create new things to do, as that new technologies make existing approaches easier to use and cheaper to execute.

To use an analogy, I now record many TV shows and save them for later viewing. Twenty years ago, I had a VCR that was capable of doing

exactly what I do today, but the hassle of programming a difficult machine, combined with the cost and annoyance of buying and storing VHS tapes, led me never to use that capability — I just used the VCR to play back the tapes I rented from Blockbuster. Think of loyalty programs in that vein: It's not that new approaches have been invented — we're still just trying to get our best customers to stay loyal to our stores and spend more money in them — but the ways of doing this have moved from monumentally challenging to relatively straightforward. **PGI**

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