

the **loyalty** guide 4

... the whole of customer loyalty, engagement and profitability

Volume 4

A short sample from Chapter 21:

Retail Customer Loyalty

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the **loyalty** guide

... the whole of customer loyalty, engagement & profitability

Volume 4

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From Chapter 21 - Retail loyalty...

In general retail, today's key need is to focus on what drives loyalty programmes, what customers actually prefer, and what the future is likely to bring. Most retailers accept that they need to know more about their customers, and that the knowledge should be centrally recorded so that it is available to employees when they need it.

In this chapter we examine what makes consumers shop the way they do, what makes them choose one retailer over another, and illuminate the dynamics of loyalty programmes in the general retail sector, looking in detail at some of the leading programmes, operators, and developments in the field.

We also examine the effectiveness of loyalty programmes, and follow current and future shopping trends. Also highlighted are the many problems of customer retention strategy planning in the supermarket and general retail sectors. Loyalty to supermarkets is specifically and comprehensively covered in chapter 20.

Most retailers accept that they need to know more about their customers, and that the knowledge should be centrally recorded so that it is available to employees when they need it. The days when it was enough for 'Mary in Haberdashery' to know all about which lace sells and which one doesn't, or who the best customers are and what they like, have long gone.

Loyalty programmes enable that information to be recorded and so are an essential part of retail. The retailer judges the usefulness of a loyalty programme by how it can help run the store more efficiently and profitably.

But customers have a different view of loyalty programmes. To the customers, the programme exists solely to reward them for their custom. If they think that they would prefer to be rewarded in some other way, they dismiss the programme as being unnecessary. The people on opposite sides of the counter assess the usefulness of loyalty programmes in totally different ways. With that in mind, it's not surprising that many customers, when given the choice, opt for simple discounts instead of a loyalty programme - they are not taking into account the hidden benefits that a programme provides for them - the more effective stock control, the better merchandising and the greater personal relevance of marketing messages.

However, it's what the customer thinks of the programme that really matters. That's why it's important to listen to their views and to do whatever is possible to correct their misapprehensions.

It must also be understood that loyalty cards are not a substitute for getting the basics right, even though they do add value to the retail proposition.

The benefit of loyalty cards to shoppers is two-fold: direct and indirect. Direct benefits are typically one of two types, being either price reductions or added value rewards such as flights or days out. Indirect benefits are less tangible, relating to the collection of, and response to, consumer data by retailers and suppliers to ensure that the products and services provided meet customers' needs. Shoppers are less likely to consider these as benefits (for example, improved sales forecasting which improves store efficiency, and the resultant cost savings that are then passed on to the shopper through lower prices).

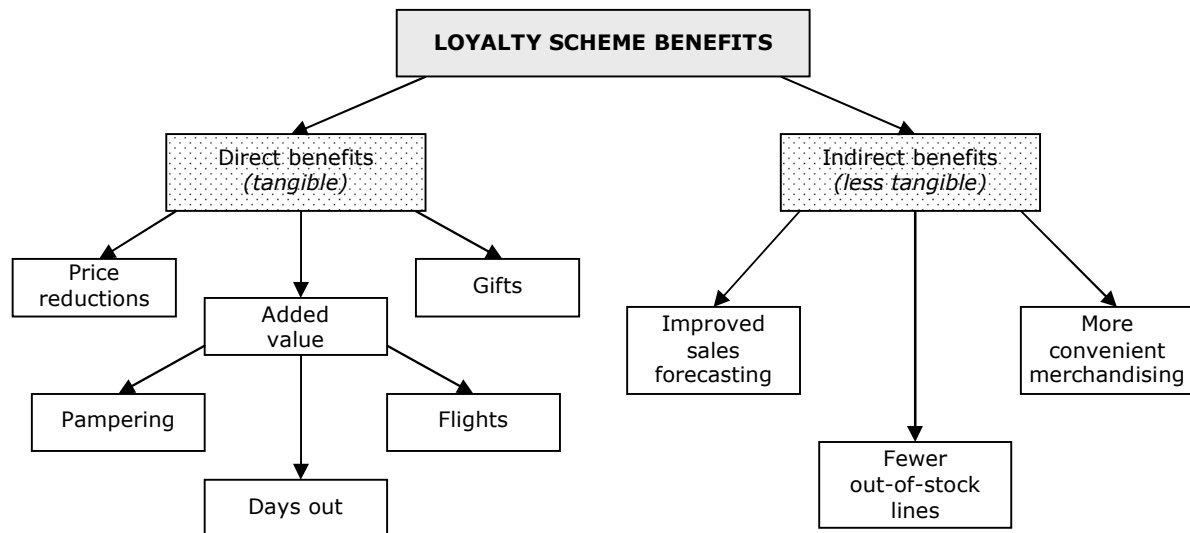


Figure 21-A: The benefits of a retail loyalty scheme

Source: The Loyalty Guide 4

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Also from Chapter 21...

21.3.2 Case study: LG (brand loyalty)

Most of the market share in the mobile phone handset industry was owned by four major players - Nokia, Motorola, Samsung and Sony Ericsson - until 2004. While having long been a minor player in the industry, LG [www.lgmobile.com] was known for its 'follower image' as a generic mobile phone maker, so the company embarked on a brand-building programme of epic proportions.

Because the company was perceived by consumers as a follower rather than an innovator, LG handsets were forced to compete mostly in the low-priced mobile phone sector and, as a result, profits remained stagnant in the over-saturated mobile communication market.

However, LG began to compete head-to-head with the industry giants in 2005 by introducing its Black Label Series (BLS), a new premium mobile handset brand offering state-of-the-art technology features perfectly blended with iconic design, via a unique product positioning and communication strategy designed to redefine expectations of the company and its products. After only two years, LG became the world's fifth-largest mobile phone manufacturer (and as of Q2 2008 held the fourth position), with a steadily-increasing growth rate, and the Black Label Series has played a major role.

LG had been considered a second-tier mobile handset manufacturer for a significantly long period of time, as consumers lacked confidence in its product quality. People were less likely to put the LG brand as top of mind in their mobile phone purchasing decision, and did not relate it with a premium image. In addition, LG lacked global launching experience in the open market and its handsets often had a product life cycle of less than six months. These factors, along with growing competition in the premium mobile handset industry, have been major challenges for LG to overcome.

Focusing on design and the overall "feel" to consumers, in which emotion takes a huge role, LG has linked the term "black label," often used for premium quality designer apparel, with its finest mobile handset series. LG understood that modern consumer buying trends are influenced as much by the design

aspects of the product as by its technical features. LG Chocolate, Shine and Secret, the three pioneer handset models within the BLS, have focused on fulfilling the design wants of consumers.

By introducing the BLS, LG has aimed to significantly improve the consumer's existing corporate brand image and to develop long-term brand equity in the mobile handset industry. In doing so, LG has believed that the new premium signature product line would create a business momentum and increase consumer loyalty. The above-mentioned sustainable competitive advantages have strengthened LG's market leadership and increased its market share in the mobile handset industry. For instance, LG BLS first two handset models Chocolate and Shine have become LG's first-ever ten million-sellers, achieving total accumulated sales of 19.5 million units and 10 million units respectively.

The success of the BLS has played an important role in not only increasing LG's brand recognition but also turning LG's overall image into more of a premium brand. The company's brand recognition in the UK soared to 91.4% in 2007 versus 80% in 2005 when the first LG BLS model Chocolate was launched. During the same period in the U.S., LG's brand recognition rose to 83.1% from 65.1%. LG Chocolate was also ranked the second for Phone of the Year in Mobile Choice's Consumer Award 2006.

The success of the new BLS has significantly contributed to improving LG's position in the global mobile communications market that LG's market share reached to 8.6% in Q1 2008 from 6.6% in Q4 2005, taking the fourth position after Motorola. LG's sales margin rate surged 14.4% in Q2 2008 from negative 1.7% in Q1 2006. In particular, in the second quarter of 2008, LG had the highest growth rate among any of the top five phone makers, showing impressive double-digit growth over the previous quarter. It raised unit sales by 14%, operating profits by 22% and sales revenue by 18%.

The majority of mobile handset manufacturers had long focused on technology feature development, and therefore the market saw little differentiation in design characteristics. However, LG saw an increase in consumer needs for well-designed mobile handsets, and decided to create a new phone category emphasizing the design axis on top of industry standards for technology and entertainment development. The launch of LG BLS was the starting point to set this new axis for the design-oriented phone. Based on the principle that technology could no longer exist without design, LG BLS has set a new standard for consumers in the mobile handset market.

LG has been selecting its target group based on their life style and priorities to core product value. At the launch of Chocolate, the first model in BLS, LG selected young professionals aged 25 to 32 for whom LG could certainly maximize communicating the design aspect. From the 19.5 million-unit-selling results of LG Chocolate, LG found confidence in the consumer need for mobile handsets that combined innovative design and advanced technology and it allowed LG to widen the target for LG Shine and Secret to trendsetters aged 19 to 39. This group, the core target of design-focused phones, is comprised of young individuals who are sensitive to fashion and trends, and consider mobile phones as a social status builders. Individuals in the target group see design as one of the key purchasing decision factors, and upgrade their handsets constantly on a regular basis. In addition, they highly value premium luxury brands, for they believe that luxury items demonstrate their style in unique forms through technology and fashion. This new target consumer segmentation has allowed LG to differentiate BLS from its competitors who solely focus on the technological aspects of their mobile handsets.

LG BLS approached consumers using emotional marketing tactics because it realised that an emotional connection with consumers, once gained, is the most difficult thing for competitors to compete against. A variety of marketing activities focusing on the emotional and sensual needs of consumers were developed, and resulted in continuing success, allowing LG BLS to increase its premium brand recognition as well as sales profits on a global level.

The shift from traditional to alternative media is a global marketing trend found in the mobile industry. A communications industry forecast published by Veronis Suhler Stevenson predicts alternative advertising spending will increase more than 23% from 2006 to 2011, while traditional advertising will have a compound annual growth rate of just over 1%. With this in mind, LG has taken steps to differentiate its online marketing from that of its competitors.

LG has been actively involved with blogging ever since its first BLS mobile phone Chocolate. LG has developed its own user-interactive communication channel in the online, including the company's first official weblog [www.lgblog.co.uk] in the United Kingdom as well as individual product blogs for its Chocolate and Shine. The weblog provides news and up-to-date information on the company and its products in addition to a two-way dialogue with consumers, and links to various influential blogs for product reviews and discussions.

Having put strong efforts into its blogger relations programmes for Chocolate and Shine, LG has increased the original 15 key bloggers concentrated only in technology sector to a total of 34 most influential bloggers in design, entertainment and lifestyle, all relating themselves with the BLS. The aggressive LG blogger relations programme, including blogger pre-seeding activities during the Shine launch, strengthened online word-of-mouth marketing. With this, the total number of positive user reviews has reached an average WOM rate of 0.003 which is three times that of Chocolate and five times more active than that of its direct competitors in the same time frame. In addition, bloggers continuously stimulated discussions on product specifications and their unique selling points. Some bloggers even voluntarily set up a community (LG Shine User Group) and updated reviews and photos at Flickr.com.

LG has realised the importance of sharing personal experiences in building strong consumer-brand relationships, and therefore has applied the concept in its online marketing activities for the BLS. LG has hosted a number of different online competitions on its weblog encouraging active participation from consumers to share their unique style with LG and to relate it to the BLS. For instance, LG held an online user created content (UCC) competition under Shine's product concept "Born to Shine," which was not bound strictly to product- or feature-oriented themes. Consumers were asked to upload up to five pictures describing their "shining moments" on the LG Shine blog and the three with the most number of votes and/or positive comments received a LG Shine. The competition allowed consumers to share their stories with LG and helped them more closely relate to the LG BLS. As a result, the average number of daily blog posts increased dramatically and soon surpassed that of the launch period in mid-February, 2007.

LG has also undergone a ground-breaking change in allocating its offline marketing resources and has adopted the concept of special events in its marketing efforts to better serve consumers' emotional and sensual needs. As a result, LG BLS has provided a variety of consumer-centric marketing events including Chocolate's brand ambassador programme, Shine's consumer trial event and Secret's guerrilla marketing event.

LG Chocolate's brand ambassador programme used celebrity Coleen McLoughlin, a global fashion icon with massive influence over the major target trendsetters, to create more impact from the very beginning and throughout the first LG BLS marketing campaign. At the pre-launch phase, the announcement of Coleen's appointment as the main ambassador of LG Chocolate in press release was distributed to maximize interest about the Phone, and actual impact reached 93,285,923 WOM. In addition, the link between LG Chocolate and Coleen reaffirmed the premium design features of the Phone, with 36% of its pickup in lifestyle media, ensuring target consumer reach. Coleen's celebrity status helped the LG BLS global launch event become a unique mixture of press conference, launch party and interview held at Sketch, London, an exceptionally exclusive club in the heart of the Fashion District. Through this event, LG was able to attract a total of 127 UK and other European media personnel covering Colleen and 76 other celebrities.

LG Shine introduced a new concept in event marketing when it hosted its "A Day with Shine" event in selected buildings in London during April 2007. With an emphasis on consumers' sensual experiences, LG provided an opportunity for its potential Shine consumers to use the handset for one day and get a taste for the premium qualities of the BLS handset. Moreover, every participant in the event had three chances to win a LG Shine phone:

1. *A Surprise Call* - Two participants called at random during a daily event;
2. *Trialler's Moment* - Three participants chosen for their Shine product reviews;
3. *Photo Together* - Three participants with the most number of votes and/or positive comments for their uploaded pictures selected on Shine blog.

The LG Shine consumer trial event was created to stimulate word-of-mouth marketing effect. A recent study suggested that 77% of mobile handset consumers in their 20s and 30s, the major target consumers of LG BLS, always check online reviews before purchasing new mobile handsets, and so LG used this as guidance in developing the programme.

Offline marketing events and online follow-up programmes created synergy, allowing the consumer trial programme to positively affect the LG Brand as a whole. The effect on preference and purchase intention for the LG Brand was considered to be particularly significant. Also, the marketing event had a very positive effect on consumer awareness/attitude toward LG Shine with strong positive impact on familiarity, preference and purchase. Word-of-mouth marketing proved to be both efficient and economic. Consumers who experienced using LG Shine after the consumer trial programme were found to share their story with an average of 8.9 people (colleagues, friends and/or family/relatives), more than the seven people that LG estimated before the programme.

LG Secret introduced also a worthwhile concept in event marketing by hosting a dealer promotion event programme explicitly targeting the handset retailers (so-called "middle men"). This guerrilla infotainment event provided an opportunity for LG to influence its BLS dealers directly as well as to reach more end-user consumers at the selling point.

During the event, the LG Secret dealer promotion team went into selected dealer shops and provided show window cleaning service, touch screen presentations and unique selling point quizzes to achieve brand friendliness with the dealers, a major player in influencing the end-user consumer purchasing decision. This enabled them to better share LG BLS' premium values in face-to-face conversations with potential purchasers.

The touch screen presentation lasts about eight minutes in total, describing the special features and unique values of LG Secret mobile handset, including its 120 fps video recording, motion sensor used for games and auto-rotating picture display and timeless design. The USP Speed Quiz reviews the aforementioned attributes of LG Secret and provides gifts for participating dealers.

The LG Secret dealer events also provided additional benefits - some of the end-user consumers at the event site had the chance to learn about the special features of Secret at the point of sale in an exciting atmosphere, which helped challenge their previous image of LG through the premium BLS.

21.3.3 Case study: Pigsback (retail rebates)

Pigsback [www.pigsback.com] is an online shopping portal that offers consumers Piggy Points for their purchases with participating online retailers. These piggy points can then be redeemed as cash toward other purchases (1 point = £0.01) or benefits.

The original Pigsback online portal service was launched in July 2000, and the loyalty programme launched in Northern Ireland in September 2002, then in the UK in June 2005. Pigsback.com currently claims more than...

... continued in the full report - see www.theloyaltyguide.com

Authors' note:

This report's numerous case studies are carefully constructed to provide full background, history, and current-day detail, along with partnership developments, points structures, redemption options, and the latest facts and figures concerning each programme.

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9.2.4.7	Vivotech & Eagle Eye offer NFC vouchers
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9.7.1.6	Stop & Shops extend 'scan-and-bag' kiosk initiative
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10.3.2.3	Ad Infuse's mobile ad network grows by 60%
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10.3.2.9	Lowe's sends loyalty discounts by SMS
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12.3.2	Reduced: 27 cells
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19.2.3	Robert Passikoff, Brand Keys <i>Only a consumer-centric view reveals loyalty</i>
19.2.4	Luc Bondar, Carlson Marketing Worldwide <i>The evolution of customer loyalty marketing</i>
19.2.5	Terry Vavra & Douglas Pruden, C.E.P. <i>Loyalty is often poorly targeted and conceived</i>
19.2.6	Linus Gregoriadis, E-Consultancy <i>Build a customer-friendly culture</i>
19.2.7	Phil Hawkins, FlyBuys <i>Loyalty rewards: let the member decide</i>
19.2.8	Jill Griffin, Griffin Group <i>The search-and-switch threat to loyalty</i>
19.2.9	Bill Hanifin, Hanifin Loyalty <i>Loyalty, social media and Millennials</i>
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19.2.12	Tim Keiningham et al, Ipsos Loyalty <i>Making the case for profitable loyalty</i>

19.2.13	Carlos Dunlap, Kobie Marketing <i>Why should we care what customers think?</i>
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27 Telecoms loyalty

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 - 27.2.1.1.3 Mobile service providers risking their loyalty
 - 27.2.1.1.4 Mobile operators lose 25% of retail sales
 - 27.2.1.1.5 Poor CRM systems inhibit mobile relationships
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 - 28.2.1.3 Discontinued models damage car-buyer loyalty
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29 Non-profit loyalty

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- 29.2 Loyalty initiatives supporting charity
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 - 29.2.3 E-shopping loyalty scheme supports UNICEF
 - 29.2.4 Payback doubles points for children in need
 - 29.2.5 Aeroplan reports increasing charity donations
 - 29.2.6 Payback & BetterPlace offer charity donations
- 29.3 Recycling reward initiatives
 - 29.3.1 Rewards programme increases recycling by 90%
 - 29.3.2 Reward programme diverts material from landfill
 - 29.3.3 Atlanta's loyalty programme for recyclers
- 29.4 Other non-profit loyalty initiatives
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 - 30.2.3.1 Packard Bell's relationship strategy
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- 30.4 Loyalty to healthcare providers
 - 30.4.1 Virgin HealthMiles' e-shopping rewards mall
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 - 30.5.2 UK's Green Rewards programme
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 - 30.6.4 Pentagon Pets joins Octopus Rewards
 - 30.6.5 City payment card's instant rewards
 - 30.6.6 Retirement planners' new loyalty scheme
 - 30.6.7 UK cash-back network grows 300% in one year
 - 30.6.8 BSP Rewards powers DubLi's online mall
 - 30.6.9 Play.com's rewards-based credit card
 - 30.6.10 Doc Popcorn launches mobile loyalty scheme
 - 30.6.11 Just Energy extends TruCash rewards to Ontario

Appendix A - Loyalty supplier directory

- A.1 Suppliers listed by category & country

Customer loyalty systems	CRM/BI systems
Customer experience management	Call centres
Developers & integrators	Application hosting
Loyalty scheme operators	POS technology
Data warehousing & data mining	Consultancy
Coupons/gift certificates/incentives	Internet marketing
Direct marketing	Research and analysis
Public relations/media/events	Industry associations
- A.2 Supplier details (190 companies)

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