



retail

retail management

Johnston Rorke partner in charge of pharmacy services and AIPM Fellow Bruce Annabel

JOHNSTON RORKE
JR
PHARMACY SERVICES

Even loyalty needs relevance

'Loyalty means faithfulness. It means unswerving devotion. If you are loyal to something—a concept, a person, a product—you are not a fair-weather friend. You stick with it even when doing so runs counter to your interests. But surely this is not something to be expected in any commercial setting; it's scarce enough in love and war.'

(Joseph C. Nunes et al. *Your loyalty club is betraying you. HBR* April 2006)

Most pharmacies have 'bad' loyalty schemes that give away money (discounts) with a negligible impact on income. Compounding the problem is that pharmacy owners and retail managers don't understand the prime role of a loyalty program, believing it's only about delivering discounts to customers.

Of course that's fallacious; their primary role is to understand customer behaviour in order to more effectively target customer groups. But, disappointingly, the data gathered by most schemes is inadequate and, worse, not used for their proper purpose.

Loyalty clubs—good and bad

So let's compare good versus bad loyalty schemes as outlined in *Are You Being Served? PricewaterhouseCoopers 2006 Retail and Consumer Outlook*:

Bad loyalty schemes:

- offer poor standards of service;
- focus solely on discounts; and
- collect limited customer information and fail to leverage the information they collect.

Good loyalty schemes:

- ensure the loyalty scheme is consistent with rest of brand message;
- link with other providers to broaden the range of benefits to preferred customers;
- use customer segmentation to target more cost-effective marketing; and
- cross all sales channels, providing a single view of the customer.

Among the groups, the Priceline Club-Card is an example of a 'good' pharmacy loyalty program. 'Front-of-shop' and some 'middle-shop' data is collected right down to the stock keeping unit (SKU) level, which is used to improve the customer offer, target market and drive sales growth.

Also, there are some excellent individual owners who, using a capable in-store point-of-sale system, collect the data at category, brand and SKU level. They then segment and direct market to valuable customers interested in the pharmacy's differentiated signature categories that generate profitable growth.

Relevance begets loyalty

According to Johnston Rorke's annual client base benchmark series, the growth of the average retail sale per customer over the past three years has performed well below inflation and, in 2005, increased by only 1.74 per cent. Furthermore, there was little difference in the average retail sale per customer between pharmacies with standard loyalty schemes and those without.

Interestingly, the JR data proved that those pharmacies with a highly customer-relevant and differentiated retail offer achieved the highest average retail sale per customer. Most didn't have a loyalty program which shows that, by themselves, they don't create customer relevance. But, they can reinforce and build on it!

Of course customers like loyalty schemes because many of them could be renamed 'customer discount schemes' and unless the gathered data is used effectively they don't add value, generate a return visit or higher average sales.

However, be aware that the cost of loyalty club administration and redemptions is high and must be balanced against the benefits the pharmacy can leverage by using the data. For that reason many retailers are terminating their schemes because the costs outweigh the benefits. Fortunately some pharmacy owners are also starting to question the value for money too.

Question your loyalty club's relevance

Last year one of our clients cancelled his pharmacy's loyalty scheme. In doing so he cut marketing costs by 31 per cent (\$30,000) and reallocated funds to local area marketing and increasing profits. Net profit in 2005/06 increased, retail sales continued to increase, customers didn't miss the scheme and the average retail sale per customer actually improved by 5.9 per cent due to other strategies.

The Tesco Clubcard operated by Tesco, the leading UK supermarket retailer, is an example of a 'good' loyalty program. It was a primary factor in helping the company achieve market dominance.

'Good' loyalty schemes are critical to future retail success:

'Retailers need to know why their customers shop with them and how they make their shopping decisions. Armed with these insights businesses can then develop meaningful marketing, merchandising, purchasing and service strategies that align with the target customer. Offering a more personalised experience with a differentiation from their competitors will ensure a base of loyal advocates for their thriving business.' (*ACRS Retail Register* July 2005. Understanding that Complex Customer, Mel McGoldrick)

'Good' loyalty programs communicate and accentuate a highly different and relevant customer retail offer—a concept I have written about since October 2005. So pharmacy owners must agitate for their loyalty scheme providers, including the banners, to deliver the attributes of 'good' loyalty programs.

The only other option is to take control and run it independently; a daunting prospect for many. But without this, loyalty programs will go on being little more than customer discount schemes. ■

JR.bizlink