

A Question of Loyalty

By Lauren Gibbons Paul

Looking to boost customer devotion? Consider launching a loyalty program that rewards your most profitable customers and provides them with an incentive to spend more.

The owner of Vinodivino, an upscale wine shop in the Boston suburb of Newton, Massachusetts, Keller-Go opened for business on December 23, 2004. Even while launching a business at the height of the holidays, Keller-Go made his store's loyalty program as much a priority as stocking more than 200 different kinds of wine in his 500-square-foot storefront and hiring the three full-time employees.

The loyalty program was fairly cheap (not even \$10,000 for the hardware and software) and easy to implement (just two days of consulting help). But it's already paying dividends in the form of higher sales and repeat business. Vinodivino is a good example of how a small retailer can use incentives not just to drive sales but also to create the feeling of being part of a hip community.

Those reluctant to carry yet another card (Keller-Go estimates that about half of his customers fall into this camp) have an alternative. The store clerk can enter those customers' last names into the Microsoft® Retail Management System (RMS) point-of-sale system so that their purchases will automatically count toward the loyalty reward—even without the card.

"We wanted to make it entirely easy and convenient for customers. The credit is on the store computer. We keep track of it—you don't have to worry about it," says Keller-Go, who spends about four hours at the end of the month tallying each member's store credit using a Microsoft Excel spreadsheet. (An additional Microsoft RMS module would allow for tracking benefits automatically; Keller-Go decided to put off that investment until later.)

Keller-Go doesn't worry about the lost revenues that go to store credit under the program. "People never come back and use just the amount of the credit," he says. "They spend more." On average, a non-club member spends about \$30 per purchase. In contrast, a club member with a \$10 credit typically spends \$45 to \$50. Big spenders with \$50 or \$60 in credit will spend their usual hefty amount, then use the credit for a really special bottle.

The Connoisseur Club is just one part of Keller-Go's larger strategy of differentiating his shop from the competition. "Loyalty goes beyond the program itself. It's about the overall customer experience," he says. More than half of Vinodivino's wines are priced below \$20, which he says creates a comfortable atmosphere for customers who might be intimidated by other, more chichi wine shops in the area. In addition, the store provides tasting

Raphael Keller-Go, owner of the Vinodivino wine shop in Newton, Massachusetts, doesn't worry about losing money by offering store credit to his best customers. "People never come back and use just the amount of the credit," he says. "They spend more."

notes with every bottle purchased. Staff members are "wine people," highly knowledgeable without being overbearing. Keller-Go quizzes his job candidates for a working knowledge of wine (asking them what wine they would pair with grilled salmon, for example, or what would make a good alternative to red Bordeaux). Then he recommends they read certain books to keep advancing their knowledge.

Keller-Go also pays about \$30 per month to the ConstantContact.com e-mail marketing service to send messages to about 1,500 customers in his database, alerting them to new offerings and in-store tasting events. Once a month, he sends individual e-mails to customers who have a credit waiting on their Connoisseur Club accounts; those customers typically show up soon afterward to make use of those credits.

For a young store owned by a retail newbie, Vinodivino has done well at calibrating its mix of hard benefits (the store credits) and soft perks (the feeling of belonging to a hip, knowledgeable club). That formula is key, says Rick Ferguson, a loyalty-marketing expert and editorial director of The Colloquy Group, the consulting arm of Frequency Marketing Inc., in Cincinnati. "The combination of monetary value and special treatment is powerful," he says (for additional examples of non-financial benefits, see "The Softer Side," below).

Loyalty vs. Frequency

Small and midsize retailers often confuse loyalty programs with frequency programs, says Tom Friedman, president of Retail Systems Alert Group, a retail consultancy in Newton Upper Falls, Massachusetts, and a unit of Proximus Inc.

Essentially, frequency-marketing programs offer an equal benefit to anyone who shops at the store without taking the customer's value to the store into account. In the absence of other features that enhance the customer experience and drive loyalty, such programs can increase the fickleness of shoppers. Supermarket frequent-shopper cards are a prime example. Customers now carry a multitude of grocery-store cards and shop wherever it's convenient, without necessarily showing particular loyalty to any one store. Loyalty programs may include a frequency component, but they also involve providing excellent service and a memorable, highly personalized experience.

"The reward offered should be an expression of the value of that customer's loyalty to your business," says Friedman. The granddaddy of loyalty programs is luxury retailer Neiman Marcus's InCircle program, which confers lavish benefits, such as glitzy cocktail parties and private designer fashion shows, on customers who spend tens of thousands of dollars per year—and ignores everybody else. "InCircle still stands above the others because it rewards the best customers with a very high level of service," he says.

Friedman even advises smaller retailers to consider leaving hard benefits out of their loyalty programs. "Don't put a dollar amount on them," he says. "What really makes people loyal is a high level of customer service. You need to have customers who regard you as their retailer" for whatever it is you're selling.

Simple Does It

The Softer Side

Endearing yourself to customers isn't all about bribing them with credits or discounts. Here are a few soft benefits that can inspire at least as much loyalty as monetary rewards programs:

- Special checkout lanes
- Use of personal shoppers
- Access to insider events
- Personal recognition by staff

Keller-Go's \$8,000 investment in Microsoft RMS has brought him a solid return in the form of a strong base of regular customers. However, Friedman says, some smaller retailers make the mistake of spending \$50,000 or more on technology to enable nothing more than a frequency marketing program. He hates to see that happen. He recommends instead that they put their money into customer service improvements, such as hiring the best people and holding special parties for the best customers.

Implementing a basic frequency marketing application as part of a larger loyalty effort shouldn't break your budget. "You don't have to spend tens of thousands of dollars to get this started," says Ferguson, of The Colloquy Group. "It can be very simple." Where old-time shopkeepers keep the knowledge about their best customers in their heads, today the task is typically a matter of having a customer identification device (such as a card) that allows you to capture basic information, track purchases and offer benefits. And, as Vinodivino's experience illustrates, you don't necessarily need anything more sophisticated than a basic customer database at the point of sale.

With a successful first half-year under his belt, Keller-Go is gearing up to offer online shopping late in 2005. He's evaluating shopping-cart technology and looking for options that interface with Microsoft RMS for optimal inventory management. He aims to provide the same high-level customer choice and service on the Web as he does in his shop. That online channel is just one more prong in his overall loyalty strategy. "Individual choice—that's what our store is all about," Keller-Go says. By providing an enjoyable experience and demonstrating appreciation for its best customers, Vinodivino is already building a loyal following.

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