The effect of retail customer loyalty schemes — Detailed measurement or transforming marketing?

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Abstract This paper reviews the approach to evaluating retail customer loyalty schemes. Traditionally, these schemes are evaluated by their financial and marketing effects on acquisition, retention and development (up-sell, cross-sell) of customers and related efficiencies. This paper argues that the evaluation should also be through how far having a customer loyalty scheme can and/or should, at a minimum, transform the way the various partners carry out their marketing and, more widely, their business.

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INTRODUCTION

Store loyalty cards were widely developed during the mid-1990s. This is thought by many to show that retailers have embraced keenly the idea of developing closer relationships in their fight for the customer.[1] Other studies, however, focus on the difficulties of implementing a relationship marketing strategy in retailing. Pressey and Mathews[2] emphasise that despite the use of loyalty cards and database marketing techniques by UK retailers, most transactions are 'discrete, short-term, one-off acts'. Given the closeness of the retail industry to the customer it is surprising that more sophisticated relational and loyalty strategies are not considered. The retail market is maturing and becoming more competitive, so retailers have sought different ways of improving sales and profits. They are adopting more transformational relationship marketing and loyalty schemes that aim to build greater customer loyalty and retention, and develop methods of creating longer-term relationships, with the aim of improving profits.[3]

Loyalty schemes are just one of many competitive initiatives used by retailers to supplement the traditional weapons of brand, customer service, price, merchandise range, product promotions and location. There is a strong focus on the end-to-end shopping experience, on winning and keeping customers and improving share of selected customers' business. IBM research[4] shows that:

— increasingly discerning customers are demanding more services and information;
— heightened competition in mature, saturated markets is making it more difficult for retailers to sustain differentiated brands and value propositions;
— rapid evolution and adoption of new technologies present both opportunities and risks for companies seeking to innovate.

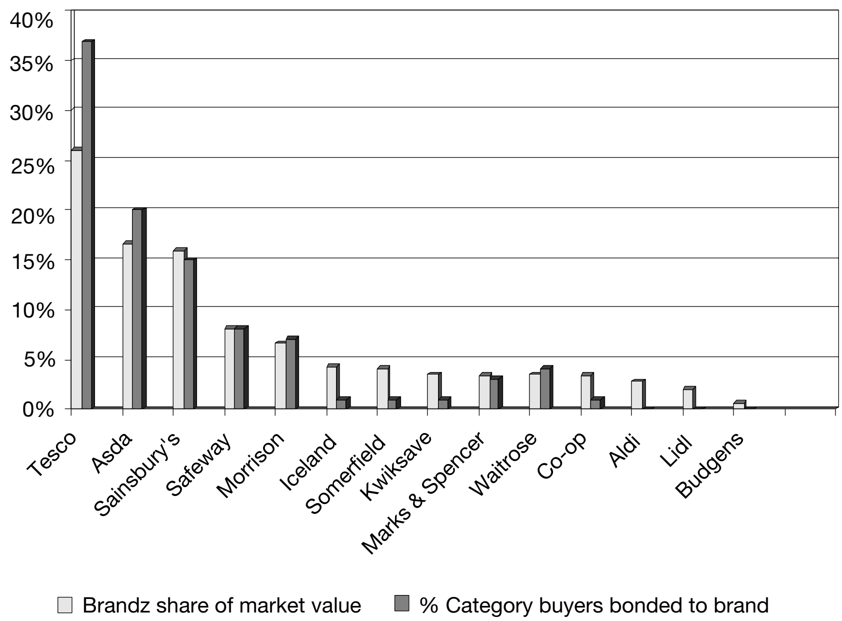
The IBM research shows that retailers are using a wider range of technologies, inside and outside the store, to improve and differentiate the shopping experience. Retailers are investing in employee empowerment and improved marketing effectiveness. To improve productivity, retailers are giving their employees online access to a wide variety of useful data, as well as advanced applications and tools. Their marketing-related efforts focus on the back-end infrastructure needed to collect customer data and develop insights from them. Nearly three quarters of the respondents stated they are 'currently implementing' customer segmentation and data warehouse capabilities. Technical and business challenges remain key obstacles to retailers' future store strategies. Nearly half of the respondents, however, said that outdated point-of-sale (POS) systems, competing organisational priorities and budget constraints were 'very significant' challenges to improving the shopping experience.

The IBM research also shows that a small group of innovators is taking the lead. They are testing various techniques, such as delivering permission-based promotions to personal mobile devices and deploying digital media displays in their stores. These innovative strategies are often focused on providing the customer with new access points and services. By testing what is possible in the store, these early adopters may be able to distance themselves from their competitors.

In this paper it is argued that the same applies to customer loyalty schemes. The innovators use customer loyalty schemes as part of a transformation in their approach to marketing, while the laggards use their scheme as a simple promotional continuity scheme.

WHY BOTHER WITH LOYALTY SCHEMES?

This is not the place to rehearse the enormous literature on customer loyalty and whether it can be managed cost-effectively. The authors' view on this is best represented by research from Ogilvy's Loyalty Index programme, including its Brandz brand equity consumer research study. This shows that there is a very strong link between emotional loyalty and financial value. 'Emotional' is the key word. It refers not to discount or other temporary loyalty but to a belief by the customer in the retailer and their products, value and service. Retailing, however, is special in that location is a strong element that can strongly skew behavioural loyalty. So



Source: OgilvyOne and Millward Brown

Figure 1 Relationship of bonding and market share: Grocery stores — UK

even if a customer has developed a strong loyalty to a particular retail brand (particularly for convenience shopping goods such as grocery foods), shopping patterns will still be dominated by ease of access. In addition, social trends seem to indicate an increasing consumer desire for autonomy and special experiences in relation to the store and the brand. Many additional benefits (including relevant promotions) that are offered by retailers may be seen as satisfiers rather than differentiators. As customers become more aware and educated, striving to differentiate could add to retail marketing costs. Those who do not offer these benefits may, however, lose market share. All this places an inherent limit on what can be achieved by a retail loyalty scheme, although most retailers argue that, for customers who have choice of where to shop, their loyalty schemes help concentrate spend with them.

Customers who are most strongly bonded to a brand — whether a retail store, consumer product or service — can be worth up to 20 times more than other customers. Brand leaders have more customers who are bonded to them. In the UK, two out of the top ten bonding brands were retailers (Boots and Tesco). The relationship between bonding and market share in retailing is given in Figure 1. (Market share interpreted from share of category statistics reported in Brandz (the WPP sponsored brand equity tracking study managed by Millward Brown)). So loyalty needs to be managed. The question is whether it can be managed cost-effectively. In the UK, store loyalty schemes that focus just on financial measures of loyalty — up-sell, cross-sell, frequency of visit, even customer retention — tend to fall into disfavour and get replaced. Those focusing on (or part of an initiative focusing on) transforming marketing and customer management, tend to work better and live longer.

Table 1: Scheme options

Scheme type	Main characteristics	Example
None	No loyalty scheme Promotion by in-store price cuts, coupons etc Store credit card may be used as way to give service benefits (eg cardholder evenings)	Asda, John Lewis Partnership, Waitrose, Wilkinson, Marks & Spencer
Solus	Own scheme (may give as benefits offers from partner companies)	Tesco (in origin), Boots, Homebase, new Somerfield scheme, Safeway (discontinued)
Shared	Companies with own schemes share some aspects	Previous Somerfield scheme (with BP and others) Tesco scheme now shared with limited number of other retail partners, eg Allders
Consortium	Third party sets up and runs scheme	Nectar

THE CHOICE FACING RETAILERS

Running a loyalty scheme is a big managerial task. What the consumer sees — a card, a statement, coupons, bonus points — is the tip of the iceberg. Behind this lies a big managerial and logistics operation, involving card issuing, database management, call centres, statementing, negotiation with partners in the scheme and suppliers of bonus merchandise, and so on. The options are summarised in Table 1.

Generally, the lower down the table, the more complex the systems, process and managerial infrastructure, but the greater the economies of scale, particularly in systems, database management, customer communication and negotiation of partnerships with suppliers of benefit offers.

The benefits and costs of customer loyalty schemes

The benefits and costs of customer loyalty schemes can be summarised as shown in Table 2.

The mixed history

In the UK there has been a mixed history of schemes. Around 80 per cent of UK households participate in at least one customer loyalty scheme. The average consumer participates in three schemes. In the grocery market, Tesco claims a 'first mover advantage' — not in the sense of having a scheme but in the sense of being the first where the scheme is a strong part of a transformed marketing approach. Boots is part of the way there. Other schemes were stopped for various reasons. Safeway's was stopped mainly because, as a second tier player, the scheme had to give too large a discount to get a response from customers. Sainsbury's Reward Card was transferred to the Nectar scheme, along with similar schemes from Barclaycard and BP. One of the prime issues for Nectar, apparently a very strong scheme, is whether some of the participants have joined just to reduce cost. Whether continuing or discontinued, however, the net effect has been to raise the expectations of many customers about being rewarded.

The reason why some of the schemes do not continue is that they do not follow some simple rules of loyalty management, which are summarised as follows:

— know how CRM makes money: assess which value drivers are in scope; ensure all CRM activities are targeted at driving value; omit activities that do not add value

Table 2: Benefits and costs of different approaches

	Solus scheme	Additional with shared scheme
Customer benefits	• Discount • Promotional offers • Awareness of products and services • Basis for information exchange and even relationship, if the customer wants it • Customers often feel more positively about the rewarding, thanking or treating aspects of schemes than about discounts. Some enjoy the 'game' of accumulating points through offers to get the rewards or treats they want • Benefit from buying power of scheme organiser to get third-party offers which they could not otherwise afford	• Easier points accumulation • Wider choice of benefits
Company benefits	• Better knowledge of actual and potential customer value, behaviour and customer needs, providing a quantified, measurable basis for determining and implementing efficient policies on customer acquisition, retention, development (up-sell, cross-sell) • Provision of actionable data, ie in a form that can support operational decisions and effective measurement. These include new product development, targeting for new product launches (eg to early adopters), linking with suppliers for product development and targeted marketing activity, allowing offers to meet local needs, development of store formats according to local customer needs • Customer knowledge for use by other parts of marketing and of company — for some companies it is the first time they get a clear view as to how their business affects individual customers; associated segmentation and other benefits • Creating focus — bringing many disparate promotional efforts together with customer as focus • The ability to get quicker learning from launches, other trial activities and marketing activity in general • Improved pricing management and its balance with promotional activity • Prioritising investment decisions about the overall offer, ie between price, promotions, space and range, environment, customer services, customer communications, product development and format types • Informing trade-offs between different marketing vehicles, by providing common data sets for evaluation (impact on specific customers is known) • Allows brand strength to be extended and deepened through use of more targeted communication and (in some cases) service differentiation • Allows outsourcing of complex marketing tasks which demand a different management model (broadly based on direct marketing and individual customer communication) from the conventional retail marketing model (broadly based on mass and store-level communication)	• Cross-sell broadening • Shared learning • Economies of scale in communication and rewards negotiation • Delegation of decisions/management focus • Added branding strength (if partners carefully chosen to add to rather than detract from overall branding of proposition)
Company costs	• The discount • The added complexity of data management (gathering, hosting, interpretation, use) • Absorption of management attention • Possible confusion caused by complexity	• May not be incremental discount — possibly less • Possibly even saved promotional costs • If not used properly, shared scheme worse than no scheme

Table 2: (Continued)

	Solus scheme	Additional with shared scheme
Issues	• Value model — does the scheme pay, does it fit with the retailer's overall business model, do individual activities within the scheme pay	• Possible increased complexity of data management. If a company wants to use customer information pervasively it must control data structures, so partner schemes become additions to the core rather than a real shared data approach • Sharing of data complex to manage, invoking issues of trust and data protection[5] • Sharing of strategy, explicit and implicit

— manage and use data as a strategic asset: data are the lifeblood of any CRM programme; be 'hands on' gathering and using data; know them inside out and learn how to use them;
— segment consumers: understand what behaviours drive value and the Pareto effect; track changes over time to predict changes in behaviour; anticipate and act;
— create an indispensable/simple value proposition: consumers must see value to engage; the best propositions either enable consumers' lives and/or are related to personal interests;
— leverage the brand: a strong, well-liked brand with the right attributes for the target market is a valuable asset;
— continuous testing: learn what offers work with which target audiences and how this changes over time; do more of what works; stop doing what does not;
— make investment decisions in the long-term context: understand/decide which capabilities to develop and where investment will be needed over time, this is a journey, not a destination;
— deliver the promise consistently across touch points: process/technology/ people must integrate seamlessly across all channels; failure in the promise will turn consumers off;
— measure: successful CRM programmes continuously, consistently and clearly measure their impact; invest effort in measuring the true financial impact of CRM activities;
— develop a new people and organisational framework: CRM requires new roles and responsibilities and a shift in mindset and behaviour; plan the organisation change thoroughly;
— keep the scheme as simple as possible, given the often complex aspirations for it.

The reason companies cannot observe these rules is that it is hard to do so. Why this is so is explained next.

WHAT CUSTOMER LOYALTY SCHEMES INVOLVE MANAGERIALLY

Loyalty schemes involve change in all the areas listed below:

— processes
— marketing management

— customer-facing IT
— card management systems
— database management
— human resources
— customer service centres
— internal communications
— in-store promotion
— gathering and using customer data across channels: store, call centre, web, mobile
— applied analysis of customer data
— segmentation and targeting
— communication
— campaigns
— channels
— differential pricing/benefits
— partnership management
— outsourced supplier management
— integration with strategy.

Some of these areas are now examined in detail.

Applied analysis of consumer data[6]

The key area here is analysis of transaction data to predict future purchase. Targeted campaign activity based on communication preferences can be tested to check the accuracy of the prediction model. Fundamental to this is the need for continual testing and for analytical processes to determine the learning from each campaign activity and to apply them to the next communication activities. This requires a shift in mindset for:

— traditional category/brand/product marketers towards understanding the role that the category/brand/product plays in consumers' lives. The contention between different marketing offers needs proactive management to avoid presenting consumers with competing and inappropriate offers or being restricted to providing discount vouchers at the point of sale. Customers must be assessed for their total spend, not just that currently spent on a specific retailer;
— business managers towards accepting that pursuit of loyalty is a journey, not a destination, with much learning along the way. Not everything will work right first time. Mistakes will be made and money will be lost, particularly in the early part of the journey. Risk money must be set aside to facilitate data-driven marketing 'research and development' (eg modifying the design of data assets to accommodate new channels and new variables, experimenting with new data sources).

There will be a change in how data on consumer preferences are captured — a move away from the market research now used to support extrapolation across the database. Behavioural data about consumers will be used to target 'lookalikes' (ie people with similar profiles to groups of individual consumers). Using a prospect file for a retail catchment area it is possible to locate individuals within postal codes and predict the likelihood that they will respond to a particular offer.

There is a lack of understanding of what data are needed to support loyalty schemes. There are two main reasons for this. First, marketers cannot articulate their requirements for data to support their marketing activity because they do not understand information management. Secondly, practitioners often think that data (and technology) are just too complex to grasp and should be simplified so that they become easy to grasp.

An appropriate and sufficient business architecture

The average retail store carries 20–45,000 product lines and has a weekly footfall of several thousand consumers, so lots of data are available. The marketer must understand which data elements indicate current and historical loyalty behaviour and what level of summarisation is most appropriate to support marketing decision-making processes and operational processes at each consumer touch point — either in-store or across multiple channels. Managers must define what they need and consider how it should be managed. Changes are also required in processes and, possibly, in technology platform.

The customer service centre

A sophisticated customer loyalty scheme involves several different parties, such as the loyalty scheme management, external partners, financial partners and, of course, the members. Each involves different information, tasks, types of communication and so on. This complex system must be organised efficiently and in an appropriate structure. One of the best ways to do this is to set up the organisation around a central loyalty scheme customer service centre (CSC). In most cases the CSC is either closely linked or even partially identical with loyalty scheme management, so that the responsibilities are also of a managerial nature.

The CSC coordinates, oversees and organises the everyday business of the loyalty scheme. Loyalty scheme management is more involved in developing and managing the overall concept, adjusting and improving it. In some cases scheme management does get involved in daily management, and may become part of the CSC. This has the advantage of ensuring that they are in touch with its realities, but the disadvantage of weakening their focus on its strategic development.

Should the CSC be handled internally or by an outside service provider? A loyalty scheme will work well, produce good results and transmit its ideas to customers if it is at least partly run by the company that sponsors it. The company's people are more involved and do not see it as 'another job', and the members are seen and treated more as customers than as callers. It is also easier (though not necessarily cheaper) to integrate the scheme fully with other aspects of the company's marketing and service policy. But outside help also has advantages in certain areas and can mean reduced cost, special expertise, etc. One determining factor is the desired neutrality of the CSC, which manages relationships between internal clients, suppliers and business partners. Some companies may find this neutrality difficult to maintain with an in-house CSC.

Regardless of whether it is decided to keep the loyalty scheme in-house or at least partly to outsource it, the loyalty scheme management should always be closely involved in the loyalty scheme's daily procedures. This is needed not only to control the operation but also to get input needed to improve the scheme concept.

Database and analysis

A well-organised database is critical to a loyalty scheme's success, not only because the loyalty scheme itself can be managed more efficiently, but also because the whole company can benefit more from the customer loyalty scheme if it has a database. The database technology must be able to handle large amounts of data quickly, reliably and efficiently. It should be expandable and compatible with other systems and programs (eg analytical software, dealer network support systems). It should allow analysis to be presented in a very customised and flexible way, depending on which department requests the information. The operational systems of the CSC should interface with the database, so that customer service representatives can extract or add data while they are on the phone with a member or in a similar situation. Finally, data quality must be maintained, as failure here can lead to a very high volume of customer queries.

Integrating the loyalty scheme into the sponsoring company

The more independently the customer loyalty scheme can be managed, the more effective it will be. This does not mean neglecting other company divisions, since of course their goals need to be considered as well. It means that the loyalty scheme management should have the authority to make decisions on how to run the loyalty scheme, how to organise it or which benefits to offer, without having to confer with outside parties. This shows how similar loyalty scheme management is to product management. In both areas the responsible managers have to be able to make fast and independent decisions concerning the loyalty scheme or product for which they are responsible. If situations arise that require a quick decision, such as unanticipated price-cuts by a major competitor or the introduction of a new loyalty scheme by another major player in the industry, this independence is of particular importance.

MARKETING TRANSFORMATION AND LOYALTY SCHEMES

So, having a customer loyalty scheme certainly involves making many changes to marketing. But it is possible to combine a customer loyalty scheme with existing retail marketing methods, as indeed many retailers have done. Evidence from IBM's research[7] is that marketing spend is, in general, poorly managed. Investigations into marketing effectiveness commonly result in reallocation of up to 50 per cent of marketing spend. Evidence on implementation of customer relationship management approaches indicate that what distinguishes leaders from followers is their focus on the people, support, infrastructural and change management aspects. Yet marketing directors rarely focus on this. Indeed, the way they view their job has probably not changed much in 20 years. It has been made slightly more complex by the advent of new channels and new information systems.

Where, then, do loyalty schemes fit when it comes to marketing transformation? Marketing transformation is defined here as combining the best in marketing, sales and service from anywhere in the world to change how marketing works and to meet the challenges just described. Nothing is ruled out. Three types of marketing transformation have been identified by the authors:

— internal: marketing gets much better at doing what it should do;
— corporate: marketing drives changes which not only change marketing but change many aspects of the corporation;
— supporting: the organisation is transforming and marketing must change to support the transformation.

Doing the second may not require the first, as marketing may be ahead of the game. The third, however, normally involves the first, as marketing may be behind the game.

Marketing transformation includes:

— merging marketing with other functions;
— abolishing or outsourcing marketing;

Table 3: Examples of loyalty schemes and marketing transformation in retailing

Area of marketing to be transformed	Type of transformation
Product/range management	By changing the focus from what sells well in stores today to what further products and services customers could buy tomorrow, whether physically in the store or as a result of a visit to the store (ie that they could take the brochure for and buy later)
Focus and strategy	Moving from focus on product and sales volume to focus on customer and customer value
Customer data management	Move from poor quality (and possibly poor compliance with privacy or data protection laws) of customer data management across different functions (marketing, customer service) to situation where customer data are managed and exploited well
Analysis, targeting and measurement	Move from tactical focus of analysis and targeting (typically optimising individual campaigns) to strategic customer management focus, with result that it is possible to measure overall effect of different customer management initiatives (and indeed the effect on customers of any sales, marketing or service initiative)
Store location	Locating stores based on the full potential of customers in the area, not just what they currently buy within the range currently supplied by the retailer
Customer service	Focus on improving service to best customers (while maintaining service levels to all customers)
Competitive strategy	Deliberate attack to win certain customers away from competitors — either absolutely or in terms of share of business) and defend certain customers from competitive inroads
Supply chain	Streamline number of suppliers by identifying which suppliers best meet the needs of priority customers
	Optimise number and structure of stock-keeping units (SKUs) by allowing deletion of SKUs which, although they provide some profit, play no significant role in attracting or retaining more valuable customers
Promotional management	Focus on adding value, to prevent loyalty card from being used as a discount card rather than influencing shopping destination and driving customer footfall and share of wallet that they spend with the retailer
Communication management	Much stronger focus on personalised communication, and measuring its impact across all channels
Multichannel communication	Move to use loyalty card across multiple customer touchpoints (eg website, call centre and store) and in leveraging customer data across these touchpoints (does the company know who is its most valuable customer across all channels?)
	Integrate data from these different channels to produce a uniform view of how a customer is behaving, and what offers/rewards can be given through which channel to gain maximum response/greatest efficiency (plus joined-up, consistent processes underpinning this)
IT strategy	Change to focus on managing the customer
Human resources	More customer-oriented, value-oriented HR-strategy
	Empower frontline staff with better information (ie at cash register client information pops up and allows a personalised comment)
	Provide more professional and accountable context for managing marketing staff
Overall marketing efficiency	Understand which activities work best and channel funds to them
	Focus marketing activity more strongly on retaining and developing existing customers

— marketing taking over accountability for new areas;
— making boundaries between marketing, sales, service, human resources, operations, logistics, etc, less impervious (as for example when they are able to use a single view of the customer, member of staff, business partner);
— radical change to ways/channels for managing customers (media/channels);
— massive switches of marketing resources within and between elements of marketing mix to achieve very different objectives;
— radical repositioning of products and brands using new techniques.

In general management terms, the above may involve changes in the areas of:

- appropriateness/match/focus of resources to need
- acceleration
- integration
- comprehensiveness
- relevance (of offer, activity etc)
- consistency: at any time, over time
- cost-effectiveness
- professionalism/standards (people, processes, data, activity, etc).

A loyalty scheme can help a retailer with transformation in ways shown in Table 3.

Many retailers need help with one or more of the kinds of transformation shown in Table 3 because the authors' research shows that they are not able to cope with the speed of change imposed on them by their competitors, by technology or by customer behaviour.[8] A loyalty scheme focuses so strongly on these three areas, in an accountable way, that it can be the catalyst for transformation, or indeed be the transformation itself.

Even a single company loyalty scheme can achieve or be part of this transformation. The Tesco scheme is perhaps the best example of this. Unless, however, senior managers have not only 'bought-in' but actively developed, promoted and resourced the new customer-focused way of doing business, this transformation is unlikely to occur. Participation in a shared scheme can accelerate transformation, mainly because a well-run shared scheme gives access to advanced skills and techniques and economies of scale but also because, if the retailer works closely with loyalty scheme management, the retailer can learn quickly how to change its own marketing. If, however, there are trust issues (eg worries about the security of shared data) or political issues (a version of the 'not invented here syndrome'), then a shared scheme can be weaker than a solus scheme in terms of its transformation potential.

A loyalty scheme encourages transformation in the general direction of CRM. This applies particularly to:

- the marketing planning process;
- communication management: channels used, coordination and focus of communication;
- how information is created, analysed, interpreted, shared and used to manage customers and business partners;
- the proposition to all customers, or certain segments, to improve success in customer recruitment, retention and development and management of problems;
- how the organisation is focused, accountabilities, etc;
- planning and implementation processes.

HOW SOME LEADING RETAILERS ARE MANAGING THEIR LOYALTY SCHEMES

The Tesco Clubcard

Tesco Clubcard's success is part of a wider success. Launched in 1995, it has been part of a steady transformation of Tesco's marketing that has extended beyond its traditional retail product range into personal financial services (2.5 million customers and £40m annual profit) and internet ordering. Tesco.com is one of the few grocery e-tailers to make an operating profit and is the world's largest. The Clubcard has also paved the way for Tesco's market share growth in non-food items. Managing such a card involves very large numbers of people (eg 500 manning a hotline). Tesco mails its members every three months with their discount vouchers and coupons, and the call centre gets thousands of calls from customers who want to know when they will get their mailing. The analysis that provides the insight to enable the targeting of promotions is outsourced to dunnhumby, the design of mailings to EHS Brann, and the mailing to Polestar. The Clubcard Magazine has a run of nearly 9 million four times a year. Forward Publishing, a specialist in customer magazines and contract publishing, produces it. The general verdict of retail commentators is that Tesco's Clubcard is one of the most successful retail loyalty schemes in the world precisely because of the extent to which it has formed part of a retail transformation, and the reason so many of its competitors are trying to follow in its footsteps.[9]

Jigsaw

The above points are very well illustrated at the Jigsaw Consortium, a joint venture between Cadbury Trebor Bassett, Kimberly-Clark and Unilever. It was founded in 1997 and includes Cadbury Trebor Bassett, Kimberly-Clark and three Unilever companies: Birds Eye Wall's, Lever Fabergé and Unilever Bestfoods. The companies in the Jigsaw Consortium are able to share knowledge and experience across the Consortium because they are broadly non-competitive. Indeed, two of the three (Unilever and Kimberly-Clark) share a very strong common competitor — Procter and Gamble. The core of Jigsaw's activities is the database, now one of the largest in the UK, which they have created combining data from the partner companies plus new data collected by Jigsaw. Partner companies use the information it provides to create relationship marketing activities across their brand portfolios and to understand consumer behaviours and attitudes.

The consortium appointed OgilvyOne (London) in early 2003 as a new partner in an agreement designed to exploit the full potential of the Jigsaw database and extend the quality of services that Jigsaw offers. The Jigsaw Consortium operating companies currently use Jigsaw resources to develop effective relationship marketing and direct marketing campaigns. Partnered by OgilvyOne, Jigsaw will now have access to additional expertise and resources to build on the successes that Jigsaw has already achieved. The service will focus on partnering Consortium members and their agencies to support the implementation of high quality communication programmes and include provision of related support services such as data acquisition/maintenance, database management, data analytics, knowledge management and evaluation. The OgilvyOne team will also provide insights and analyses in support of brand and category management objectives and manage a number of key third-party supplier relationships in such areas as database management services and data provision. Following a transition phase, OgilvyOne will provide a managed service with an integrated team comprising Jigsaw and OgilvyOne personnel. In addition to relationship marketing services expertise, OgilvyOne, as part of WPP, the world's largest marketing services group, was also seen to offer the Consortium distinct benefits in terms of leveraging the database for wider commercial use, through broader application of the data and their availability to third parties.

The Nectar scheme

Nectar is a coalition loyalty scheme in the UK developed by Keith Mills (founder of Air Miles) and his company, Loyalty Management and Loyalty Management UK. It was launched in the autumn of 2002. Nectar brought together leading UK retailers — Sainsbury's, BP and Debenhams — and Barclaycard, the largest UK credit card provider. Sainsbury's had its own solus scheme before, and merged it into Nectar. It was said to be very keen to join Nectar because Tesco, helped by its card, had been making steady inroads into Sainsbury's customer base for years, overtaking them to become the UK's number one grocery retailer. Nectar claims it is able to achieve all the promotional objectives of its partners and more, at significantly lower costs. In other countries, Mills has been able to show that partners in his schemes achieved significant growth in market share and profit, reductions in advertising spend and in the size of marketing departments, and were able to sustain this growth even while closing branches. This scheme has expanded but sets out to include only major players in the retail industry.

The Nectar launch is its parent company's most successful ever, in terms of the proportion of households in the country joining its scheme two months after programme launch (nearly 40 per cent in the UK). Nectar expects that one of the major benefits to its partners will be customer recruitment (from each other's customer bases), but the long-term benefits will come mainly through outsourced marketing, as in the Jigsaw case. Interestingly, Nectar itself is an astute user of outsourcing, with many best-of-breed specialist suppliers contracted to it. In addition, Nectar provides expertise in marketing knowledge to each of its coalition members.

CONCLUSIONS

Perhaps the most significant change induced by a loyalty scheme is the extent to which a retailer manages its business based on insights into customers and their behaviour and needs. This will not occur if a retailer has a loyalty scheme that yields insights into customer behaviour but that is managed so separately that these insights are not incorporated into normal marketing, sales and service decision making — and are used only as the basis for one-off initiatives, eg individual sales promotions. For this to change, marketing roles and responsibilities will also need to change. New skills may be needed, eg in data interpretation and use. Planning and implementation processes will need changing to ensure they use customer insights.

The UK experience shows that the schemes that have the greatest impact do so by either transforming the marketing of their retail participants, or by being part of such a transformation. In fact, they probably *must* transform the marketing of their partner companies in order to survive. Otherwise they risk becoming an expensive promotional device that absorbs management attention and budget, distracting companies from more productive ways of investing management time. Measuring the effect of such a transformation, however, is much harder than measuring the effect of a loyalty scheme in terms of customer recruitment, up-sell, cross-sell and customer retention. This is probably why such measures are preferred by analysts, and perhaps even by finance directors. Still, finance directors who only count current numbers have been shown wanting all over the world, if these numbers conceal the strategic direction (good or bad).

The Jigsaw example above prompts an interesting question about whether a packaged consumer goods supplier is best served by being a strategic partner of a retail loyalty scheme, buying insights from a retailer and using their data to create offers targeted to consumers, or by spending the money as part of a scheme such as Jigsaw or by some combination of both. The authors' view is that a product supplier must either let it transform their marketing or not bother. Retailers can normally show that their own loyalty schemes can be a rationalised way of doing normal retail promotion, while a Jigsaw approach adds direct contact when before there was none or little. The expertise to manage customer contacts through various direct media, including the web and mobile phones, is possessed by very few packaged goods suppliers (Cadbury is said to be one of the great exceptions).

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