Optimized Loyalty is an Essential Component to Achieving Higher Margins in Grocery

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Tom Dahlen has four decades of industry experience across a broad spectrum of supermarket titans. Among other roles, he has led the industry as CEO of Wild Oats Marketing; Chairman, CEO and President of Furr's Supermarkets; Executive Vice President of Sales and Marketing for Ralphs Grocery; and Executive Vice President of Food 4 Less. Currently, he serves as Chief Strategy Officer for Swiftly where he is continuing to push the boundaries of what is possible in retail.

In the mid-1990s, the grocery industry began to study customers at the individual level and use the information it gathered to increase the average number of store visits and customer spend. As EVP of Marketing for Ralphs, our team invented the concept of marrying loyalty and affinity programs, such as fuel discounts, theme park admissions, and other related value add programs. This roadmap is a path many retailers follow today. The combination of loyalty and affinity programs achieved results that led to the Ralphs Club to account for over 90% of the transactions and 95% of the sales in Ralphs. While the fundamentals of loyalty have not changed since those early days, there are still many retailers who have not undertaken such programs, risking obsolescence. In today's world, personalization is table stakes for retaining customers. In this paper, we will examine how personalized shopping experiences enabled Ralphs to become an elite retailer, as well as how those same programs remain a necessity for brick-and-mortar retailers to compete against e-commerce competitors.

Ralphs Club Card was at the core of our ability to grow our company. Ultimately, the success of the initiative led us to have #1 or #2 market share in every market we participated in and the overall leader in Southern California. The idea caught on; loyalty programs eventually expanded to Smith's, Pathmark, A&P, and every other format Yucaipa Companies acquired. The Ralphs Club Card concept was later applied to the Kroger portfolio after Kroger acquired Ralphs. It was through loyalty that we were able to use our customer data to ensure that Ralphs was our shoppers' top grocery destination. We established an ongoing conversation with the shopper that increased spend within our stores and increased our share of wallet. What ultimately defined the success of Ralphs Club on the customer level was the growth of our average transaction size and the average rate per item sold; both resulted in our gross margins being among the highest in the industry, while Yucaipa owned the company.

When we started to build Ralphs Club, the strategic mindset of retailers was more reactionary than it was visionary, and driven more by gut instinct than data. The Ralphs Card Club was designed to use customer data to improve the consumer experience. With it, we could use our increased knowledge of unique customer habits to anticipate individuals' needs and to communicate offers while they were away from the store. Of course there were circulars, end-caps, and in-store offers as well -- but these were all mass-market offerings that were not tailored to one individual or another and could not be measured at an individual level.

We quickly learned that creating greater value in the Ralphs Club not only provided extraordinary value in the club, but the affinity offers helped Ralphs become the primary grocery store for our customers.

The proliferation of Ralphs Club was a grassroots effort that utilized traditional lines of communications. Back then postal mail significantly outpaced email. We put our efforts towards traditional touchpoints; we built sign-up stations at the stores, incentivized shoppers with discounts, and promoted the program on radio and TV. Our goal was to have 100% of transactions utilize Ralphs Club. This might seem lofty, but when you consider that we were regularly at 92% participation, it was never out of reach. These programs are expensive and timely to develop, so a 3rd party solution is ideal. Swiftly, for example, is a service that provides a proven loyalty framework and saves the retailer the time and effort of having to build and integrate a technology platform.

By today's standards, the methods we used to learn about Ralphs customers back in the 1990s were antiquated -- but still, even that was more dynamic than what some retailers are doing today. This speaks to both the lack of ambition in the retail sector to develop a bond with the shopper, and the persistent dynamism of Ralphs Club. We vigorously pursued every avenue we could to build the customer relationship. When a club card member bought diapers or baby formula, we sent them an invite to Ralphs Baby Club; if they bought pet food, we would send an invite to join Ralphs Pet Club. Both stand as examples for the types of programs we formulated to create incremental purchasing opportunities.

However, our data-driven innovations did not stop with our customers' purchases. We would track and purchase data from postal services, hospitals and utility companies so that we could offer enrollment into the Baby Club or New Mover Program. Our constant development of these kinds of new strategies put Ralphs on the leading edge of innovation. Every retail and e-commerce powerhouse strives to perfect its loyalty programs --and yet, there are still plenty of grocers who have not established a worthwhile system. Without a real-time line of communication between retailer and consumer, incremental dollars will inevitably go elsewhere; eventually, comp stores will shrink until the retailer will fade into irrelevance.

We had a strong belief that in order to be our customers' preferred grocery store we had to be more innovative than our competitors. Being behind meant that we would be faced with expensive and complex challenges that would be difficult for our company to overcome.

With Ralphs Club, we were never satisfied with our progress and continuously pushed the envelope. I'll illustrate with an example -- in one case, we added the concept of "greater value" to the card by creating affinity programs. Affinity programs were partnerships where participating companies would give our customers offers that were not available in the general market. For example, you could get a gas discount of $.10 off per gallon from Chevron or a discounted pass to Disneyland or Knott's Berry Farm by using Ralphs Club. We would print these discounts on the back of receipts and did not have to reimburse participating partners for these discounts because they knew that they could grow their business by comarketing with the grocery store. This was our way of creating a deeper engagement with the customer and adding value to their experience even outside of the four walls of our store. However, it is hard to find that sort of innovation today. The consumer experience is stagnant; only e-commerce powerhouses are able to push the boundaries of innovation.

Ralphs Direct program offers a similar example. As our customer-specific programs evolved, consumer packaged goods companies had us send new product discount offerings directly to consumers. If the offer was redeemed, the CPG would ask us to send another offer for the same product to maintain that loyalty -- and if it was not redeemed, they might have us send a better offer on the product. This was a service we provided to manufacturers to advertise their products directly to our customers. It simultaneously enhanced the dialogue between Ralphs and the shopper. This is the sort of symbiotic relationship grocers should be focused on building today; however, they are unable to do so because sophisticated retail technologies are so challenging to build.

Through our loyalty programs, we also knew how often customers were making their shopping trips, which gave us the means to employ a number of customer retention programs. We would reach out to customers we hadn't seen in a while with big coupons to bring them back to the store. If they redeemed the coupon, we would continue to reach out over the next four weeks to rekindle their loyalty.

Even today, most supermarkets are barely able to message their customers effectively via email. This is the type of marketing that allows companies like Amazon, Jet, and Chewy to excel and dominate their brick-and-mortar competition. In these marketplaces, every customer's homepage is personalized, offers are individualized and abundant, and messaging cadences are attuned to optimize interaction.

The challenge to connect with your customers is more complex than ever before as the number of platforms your customers stay engaged with have gone from the three primary mediums: radio, television, and print to 100's of platforms that enable you to reach customers at a granular level. Grocers must embrace technology that allows you to navigate to the right mediums and reach your target customers.

The tools retailers have access to today has drastically expanded loyalties' potential. With cell phones, customers should be receiving offers and suggestions in real time. The concept of loyalty used to be about communicating a discount to the consumer mostly through the mail; now a fully functional digital delivery platform should be able to send me a deal or incentivize me to increase my order regardless of whether I am walking into the store or sitting on my couch. As an industry veteran, it pains me that most players are still using legacy IT tools and mass-market campaigns.

Perhaps the most foreboding trend retailers face today is the proliferation of consumer packaged goods companies selling direct to consumer. CPGs no longer believe that retailers are capable of helping them compete against other brands. This is because retailers have not invested properly in technology that would allow them to bridge the digital and physical worlds to create one seamless customer experience. Every vendor is trying to get their product to the consumer in the most cost-effective matter -- yet retailers are not aligning themselves with vendors to do so. Social integration is not being used properly, and the potential conversation with consumers is not being prioritized. This will have disastrous long-term effects for the industry -- unless, of course, there is mass adoption of third-party technologies like Swiftly, which provides the digital infrastructure to allow grocers to partner with CPGs in order to own the customer before ecommerce players completely disrupt the market.