



# The Raphael Report

**Observations on marketing,  
advertising, sales and  
promotions  
by Neil Raphael,  
President, Raphael Marketing**

**June 2006      Number 85**

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EXCERPTS FROM:

## LOYALTY MARKETING RULES!

### **Give Better Prices to Better Customers**

Very few businesses give the same price to every customer who purchases a particular item. For example, you will pay much less per item for a dozen bars of soap packaged together than you would if you bought each bar of soap individually. A person living alone will pay more per ounce for her small jar of applesauce than a family of four will pay per ounce for their giant-sized jar.

Some retailers have resisted the call to loyalty marketing, arguing that they want to be fair to all their customers. Differentiated pricing, they argue, gives some customers benefits and opportunities that other customers do not enjoy.

However, if you ask these same retailers whether they use their frequent flyer miles, they'll reply, "Sure." If you ask them if they ask for discounts when they buy a large supply of certain products, they'll agree that they do.

The same philosophy should work for their customers. When a customer spends more at a particular store or business, that customer has more value to the business owner than a customer who spends less.

Of course all customers deserve the same basic treatment from a business: care, respect and good service. However, pricing rewards should flow to those customers who are more valuable to the business. The cost of marketing to these customers is lower, and the cost of servicing these customers is lower, so these customers deserve a piece of the profit businesses make when they have that customer's undivided loyalty.

When you have a computerized loyalty marketing program, you can determine who your best customers are. Once customer sales are being captured and tracked, you have access to data showing how much each customer spends

with you.

Determine who your best customers are using criteria that make sense for your business. Then use this information to market your products specifically to those best customers.

### **Investigate Two-Tiered Marketing**

Many loyalty programs are based upon dividing their customers up into two camps - those who have loyalty cards and those who don't. The customers with the loyalty cards give the business the information it needs to track their purchases. In return, the business promises these customers that they will not share the data it accumulates with other businesses and that it will reward the customer for sharing his or her purchasing data and personal information (such as name and address).

The supermarket industry is a good example of the type of companies that usually organize their loyalty programs around such a two-tiered pricing system. This accomplishes a number of objectives:

- The supermarket can analyze the shopping habits of its customers who use loyalty cards, who are typically 60% of all the supermarket's customers, buying 80% of the supermarket's goods.
- Consumers who use cards are now rewarded with better prices. These consumers no longer have to clip coupons and present them at the cash register. They receive bargains simply for belonging to the program and showing their cards.
- The loyalty marketing program allows the supermarket to offer daily and weekly specials to any shopper who presents his or her loyalty card. The 40% of customers who do not sign up for loyalty cards now pay a much higher price for items that are on special only to card holders. This contributes profit to the bottom line, which is generally much greater than the cost of implementing the program.
- The supermarket learns who its best customers are. The cost of advertising can drop dramatically if a supermarket decides to concentrate its marketing effort on its best customers.

### **Divide Your Customers by Deciles**

Once you have information about your customers in your computer system, you can start looking at the data in helpful ways.

One easy way to get a good idea of who your best customers are is through the decile report. This report divides your customers into 10 groups, depending on the amount of total dollars each group has spent in your business over a given period of time.

The top two or three deciles are your best customers. These are the customers you want to advertise most often. Why? Because these customers have historically spent the most money with you and will probably be responsive to new offers or ideas.

The next two or three deciles may be your best bet for increasing purchases. Your goal is to increase spending in this group and give them incentives to become one of your best customers.

The lower two or three deciles are customers that only come to your business once in a while. Here you may try a program with rewards linked to two or three or more visits to your business. These customers are infrequent shoppers and the more you can get them in the habit of shopping with you, the more success you will have in turning them into regular customers.

In short, you want to reward the top third of your customers, give your middle third of customers reasons to buy more often and create incentives for your bottom third of customers to come in more often. Your advertising budget should be weighted heavily in favor of your top deciles, because in those deciles reside customers who are much more interested in the products and services you sell.

Remember, it is far easier to sell more to your best customers than to get occasional or infrequent customers to buy more from you. Knowing who those customers are by dividing them into deciles is a great way to focus your marketing efforts on the most profitable customers.