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## Using loyalty programs to create customer intimacy

Hollie Shaw Jun 1, 2012 – 8:00 AM ET



Loyalty programs, says Bryan Pearson, pay off if wisely utilized.

Brett Gundlock/National Post

When a grocery store client asked LoyaltyOne Inc. why it was not selling very much meat at one of its urban locations, the Air Miles parent company mined data from its loyalty card program and found that the retailer's key customers in the area were students, young singles or lower-income couples.

After the Air Miles parent suggested that the supermarket incorporate more single-serve and lower-priced cuts of meat to its mix at that outlet, beef sales rose 12%.

The example illustrates how the geeky world of deep data analytics can help businesses forge a bond of emotional loyalty with consumers, according to *The Loyalty Leap*, a new book by Bryan Pearson, LoyaltyOne's chief executive.

Canadians love loyalty programs — about 94% of them belong to at least one. And Air Miles is the largest loyalty program in Canada, with more than 10 million active accounts, representing two-thirds of Canadian households.

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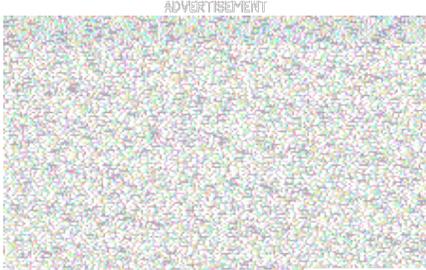
“There clearly are levels of avidity in any loyalty program,” Mr. Pearson said in an interview.

“Emotional loyalty to the program can be demonstrated in irrational behaviour — people buying things that they otherwise would not have bought, or using a service they might not otherwise use” — to accrue more loyalty points or currency. “Someone might book an extra flight or make their travel inconvenient to get enough qualifying legs or points to achieve the next tier.”

But despite having vast stores of data, he argues in the book, too many companies are focused on using the customer information they have to boost weekly product sales, rather than making a fuller assessment about what their customers’ needs are.

“The reality is that most companies are operationally product-obsessed about how they look at their businesses.” That means a fashion retailer looks at specific product styles and hot colours of the season. Grocery retailers structure their organization based on margin levels in each category. What they should be doing, Mr. Pearson believes, is getting to know their customers’ preferences and habits better, therein cultivating a more devoted type of customer and increasing sales.

“The reality is, that there is only going to be one Apple in any category and one Walmart in any category, so how do the vast majority of companies compete?” asks Mr. Pearson, who joined parent company Alliance Data, then known as Loyalty Group, in 1992, and was named president of the Air Miles reward program in 1999 before becoming head of LoyaltyOne, an umbrella unit with several loyalty disciplines, including Air Miles, in 2006.



“It really is with [creating greater] customer intimacy.”

The method has had proven success. Shell Canada Ltd., an Air Miles client, was struggling along with other Canadian gas retailers in the mid-1990s because it had too many locations. It had a goal of cutting 20% of its retail outlets to about 2,000 from 2,500, while trying to maintain its market share. Air Miles found that more than half of each location’s revenue came from Air Miles members and of that group, half generated 86% of those sales.

Using customer data and targeting those customers helped make the retailer’s transition much more efficient, Mr. Pearson said. Shell posted notice at each outlet during the closings giving information about the next closest Shell location, and Air Miles did direct mailings to alert consumers who frequented those outlets to the changes. The company offered the incentive of doubling Air Miles on purchases consumers made at the other stations.

“The results were a 300% increase in the volume that was retained from those closed stations, by virtue of telling those customers what stations were nearby,” Mr. Pearson said.

“Shell moved from being the least-efficient fuel retailer in Canada in terms of volume throughput per station to being the most efficient, with the highest volume throughput per station. They created customer intimacy at scale.”

So why are companies reluctant to use the data they have?

For one, they are concerned about the volume of it and are worried about how to cope with data overload, according to a study published last fall IBM Corp. Each day the digital realm creates 2.5 quintillion bytes of data, and 90% of the world’s current data has been created since 2009. Over 70% of the 1,734 top chief marketing officers around the world interviewed by IBM said they had been unable to deal with the impact of the data and were worried about how their marketing departments would be able to manage all of it.

Another obstacle is how businesses use their data, Mr. Pearson said. “I think there are a lot of legacy systems that exist where customer data is not easily integrated into the decision-making tools that people have.”

Retailers, for example, continually go through the exercise of delisting unpopular products to make room for new ones.

“What merchants generally do is eliminate the least profitable product or slowest selling product,” he said. “But if you add a customer filter to that, you ask, what are my best customers buying? If you discover that the product you were thinking of de-listing was actually bought by 50% of your best customers, maybe you would make a different decision at that point — you don’t want to alienate your best customers.”

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