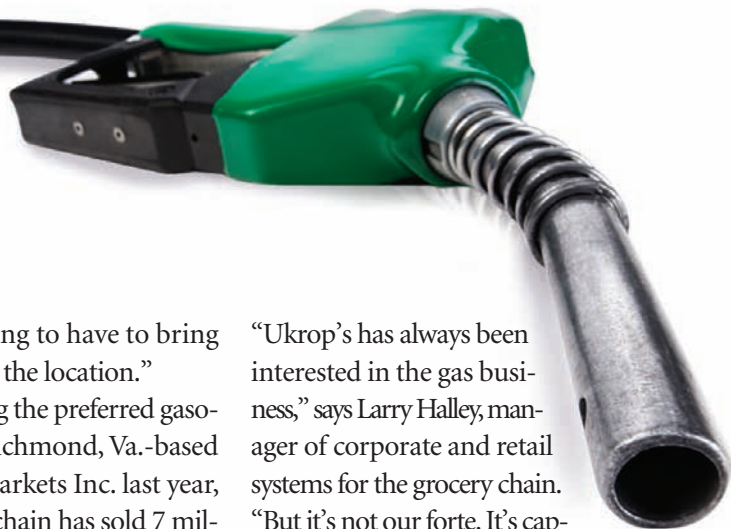




# SUPER MARKETING

## INDUSTRY DEBATES LOYALTY TIES BETWEEN CONVENIENCE, GROCERY STORES

By Angel Abcede  
aabcede@cspnet.com



**W**hen grocery chains such as Giant Eagle, Jewel and Albertsons began placing pumps on their lots earlier this decade, convenience retailers rolled their eyes and braced themselves for yet another assault on their gasoline profits.

But in 2009, retailers are seeing a different picture unfold. Partnerships are springing up between grocers and c-store operators, as a way for the former to leverage existing fueling sites and for the latter to bump up traffic counts.

While the gas-grocery solution may not be for all convenience retailers (see Kraft/CSP Daily News poll, p. 214), those engaged in such partnerships say it's been a boost to their businesses.

"If all you're going to do is reward customers you already have, that's one thing," says Terry Johnson, vice president of marketing for Uppy's, Chester, Va., a 40-store chain that partnered with a local grocer's loyalty program last year. "But in order for loyalty

to pay, you're going to have to bring new customers to the location."

Since becoming the preferred gasoline retailer for Richmond, Va.-based Ukrop's Super Markets Inc. last year, Johnson says the chain has sold 7 million gallons through the fuelperks! program. More importantly, he's seen double-digit percentage increases in volumes overall, meaning that his new

**"Gas has a more psychological perception of value than cash back [for groceries] or a rewards point. Fuel retailers have the secret sauce."**

customers have decided to keep buying gasoline from the Uppy's chain.

For Ukrop's, the tie has proven popular with customers, having paid out \$9 million in rewards and exceeding 1 million redemptions earlier this year.

"Ukrop's has always been interested in the gas business," says Larry Halley, manager of corporate and retail systems for the grocery chain. "But it's not our forte. It's capital-intensive and not what we do."

All good? Here are a few key pain points to consider before entering into a third-party relationship:

**Control.** Because many partnerships have grown from established grocery programs, the destiny of the fuel retailer's loyalty efforts could be in someone else's hands. "What if your partner at the end of the contract decides to turn off the program or promotes it improperly?" says Nicole Nunn-Walker, vice president of marketing for MetroSplash Systems Group, Dallas, which markets a program called FuelLinks. "[Retailers] are seeing grocers get the lift by promoting things in their store, so they're asking, 'Wouldn't it be beneficial to use my own fuel power to

## Loyalty Numbers

The numbers retailers look to when considering grocery ties, or any loyalty system, can include the following:

### 15% to 20%

Lift seen in fuel sales due to grocery partnership, according to Excentus Corp., Irving, Texas

### 80-20

The favorable split that some c-store retailers are seeing from grocers who want to offer fuel discounts, according to ValueCentric Marketing Group, Binghamton, N.Y.

### 10%

The percentage of convenience retailers that have adopted loyalty programs, according to ValueCentric

### 65%

Percentage of 2,400 U.S. consumers in First Data's "2009 Consumer Loyalty Study" who belonged to a grocery-store loyalty program

### 35%

Percentage of consumers in that same First Data study who said their decision about where to shop was "very" influenced by gasoline loyalty programs. Bookstores were second at 33%.

promote my higher-margin [items]?"

**Natural fits.** While issues of control may linger, no one can deny the yin-yang relationship that gas has to groceries. Rollbacks at the pump are more exciting than cents off a bag of rice cakes, say loyalty providers, and grocery rings hit the kind of dollar range that make discounts truly viable.

**Common attractions.** Economic realities are forcing many grocery chains to leverage existing assets, such as neighboring gas stations, if they want to compete with big boxes and other supermarkets that have put fuel on their lots. At the same time, the traffic a grocery store draws dwarfs



**FOOD AND FUEL:** The ties between groceries and gas appear to be getting tighter as more retailers contemplate partnerships.

c-store numbers, creating a compelling lure for fuel retailers to capture new customers.

**Cost.** While not elaborating on what the company had to spend to tie into the fuelperks! program, Johnson says compatibility issues forced Uppy's to upgrade equipment: "It wasn't cheap." So for many retailers, the cost of tying to a grocer's program—while probably a fraction of the burden of maintaining an in-house version—may still be considerable.

Ultimately, tying in with a grocer's loyalty program is a complex agreement. Retailers have to agree about who pays for things such as the discounts, associated transaction fees and equipment upgrades, as well as marketing, length of contracts and other issues that come with involved partnerships. Johnson says, "You've got to have a good partner and see eye-to-eye with them."

### Retailer Wins

Uppy's partnership with Ukrop's has been an unequivocal win, with customer response remaining strong even as the program evolves, Johnson says.

For instance, the two chains initially offered 10 cents off per gallon for every \$50 in groceries a customer bought. Today, they offer 5 cents per gallon due to the expense. "But even that didn't seem to hurt the program," he says.

The Uppy's chain had toyed with loyalty programs in the past, says Johnson, but Ukrop's approached them with a plan whereby the two divided costs, with the grocer paying substantially more for the discount. Other elements sealed the deal, such as Ukrop's reputation as a local, highly respected business within the Richmond market. Uppy's own concentration made the partnership a logical move.

So the chain took on the added costs to upgrade its store-level equipment, which Johnson says at some sites needed to occur anyway, and gave the stores the capacity for pumps to "roll back" prices as customers retrieved their rewards. "Customers are excited to save \$10 and have to tell someone, so they start talking to the other customers or to employees," he says.

While Johnson says inside sales have risen because of the program, it's not as

## Logistics Checklist

Suiting up a location to accept loyalty can be a daunting task. Here are a few pieces in the logistics equation:

- A "box" that supports the loyalty program.
- A logic-control board for pumps and other electronics necessary to link the station to the loyalty program.
- Digital subscriber line (DSL) or satellite connections.
- The loyalty program's server.
- A POS device that can process the program.

In addition, Drew Mize, vice president of product management and marketing for The Pinnacle Corp., Arlington, Texas, says retailers sometimes overlook some of the more obvious steps and their costs:

- Cards.
- Sign-up forms.
- Signage.
- Advertising: radio, TV, etc.
- Employee training.
- Web site updates.
- Incremental employee wages involved in administration, customer service, etc.
- Maintenance including additional hardware (if necessary), spare parts, replacements, service, etc.

dramatic as the sales of gasoline, because that's the product being discounted. "The more people there are on the lot, the more there are in the store," he says.

Other retailers believe that just being able to offer cents off per gallon via some type of rewards mechanism is the critical element in the equation. O'Ryan's Monticello, Monticello, Minn., has one of its three sites on a card that allows customers to pay via Automated Clearing

House (ACH) debit transactions. The process bypasses Visa and MasterCard credit fees, allowing the store to pass on the savings to customers in the form of a discount.

Taking this route purely from the perspective of the credit-fee savings, T-Jay Johnson, store manager for O'Ryan's Monticello, says he's brought his credit-card use from 80% back to at least 75%, with the difference potentially reaching 10%. He calls those numbers "a great success."

For many retailers, saving on credit-card fees is the primary goal, according to Joe

Randazza, CEO of National Payment Card Association, Coconut Creek, Fla., whose company operates the O'Ryan's Monticello program. "It's a traffic-building program," he says. "It's an alternate form of payment that merchants can use to change consumer behavior."

The other two stores in the O'Ryan's Monticello chain would probably take advantage of the cards if a POS upgrade were not required. And even though

T-Jay Johnson is unable to partner with a grocery store at this time, he wants to eventually. He says convenience retailers in his area have ties to grocers and he'd like to compete against their offers.

### A Grocer's Perspective

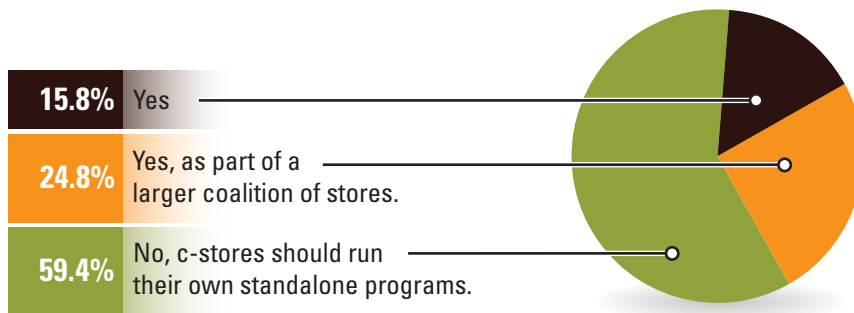
For Ukrop's, the desire to augment its rewards program with a fuel tie existed for some time, according to Halley, who says the company's proprietary loyalty program began in 1987 with a printed card that used customers' phone numbers as identifiers.

Halley believes the gas-grocery connection is intuitive. "It's not like airlines miles, where it's about a purchase you don't have to make," he says. "Gas and groceries are things we need to survive day to day. We need to eat. We need to work. We need to get places. It's a good fit."

Ukrop's chose Uppy's not because both chains start with U, as Halley says jokingly, but because the fuel chain had locations that complemented the Ukrop sites; Uppy's family history also was appealing. In addition, the way Uppy's paid for and executed the necessary technology upgrades solidified the partnership. "Uppy's has got a lot

## RETAILERS SKEPTICAL OF GROCERY TIE

Do you think grocery and c-store partnerships make the best loyalty programs?



Source: Kraft/CSP Daily News Poll. Based on 101 respondents.

of skin in the game with us,” he says.

As far as numbers go, Halley says the economy puts a haze on determining success. He prefers to ask where the company would be without the program. “In our analysis, it helps keep loyal customers loyal,” he says. “The spending rate continues to be good for our [loyal customers]. And that’s important because they have other options.”

The move was also strategic, because

another major grocery player in the area had a fuel program. Ukrop’s designed the basic elements of its loyalty program to outdo the competitor’s reward-expiration dates and usage terms.

### The Gas, Grocery Equation

The move by supermarkets into gasoline was one reason many of the larger, regional grocery stores started installing pumps on their lots, according to Scott

Wetzel, vice president of marketing for Excentus, Corp., Irving, Texas, which operates the fuelperks! program.

But the ability of many chains and independent grocers to establish the kind of fueling network that, say, a Giant Eagle has done is limited. “We’re seeing a continued movement toward grocers partnering with c-stores as opposed to building their own,” Wetzel says. “[They] want to leverage existing assets in the field as opposed to going through the expense and operational learning process of running fuel stations.”

In addition, cents off a gallon of gas seems to resonate with customers, says Nunn-Walker of MetroSplash. “Gas has a more psychological perception of value than cash back [for groceries] or a rewards point,” she says, pointing out how the c-store acts as the redemption outlet for grocery discounting. “Fuel retailers have the secret sauce.”

But supermarkets can be a new resource for untapped traffic. Jim Nevill, president of Midax Inc., Virginia Beach, Va., says supermarkets act as an anchor for the gas-grocery loyalty tie because of the sheer numbers they draw to their lots. “We identify that our realm of people will go to a grocery four times for every one time to a c-store,” he says. “And [supermarkets have] the critical mass to make a contribution [to the discounting].”

What concerns some is that grocery stores carry many of the same products that c-stores do. Ideally, a customer who has purchased groceries will then move to the gas station and potentially go into the store for a follow-up purchase, according to Anton Bakker, president and CEO of Outsight Networks, Norfolk, Va. “Hopefully it won’t have the effect of cannibalizing c-store sales,” he says.

## Wider Net

Providers such as Nevill of Midax believe the potential for more loyalty programs to crop up is high. At least 51% of regional and local grocers, which some consider still as fragmented a channel as convenience retail, have yet to adopt a program, he says.

The number of c-store retailers who have embarked on programs could be as low as 10%, according to Roger Brooks, vice president of loyalty marketing for ValueCentric Marketing Group, Binghamton, N.Y. Part of the reason is the difficulty of executing programs. He mentions some common stumbling blocks:

**Multiple, limited POS.** Integration is key to allowing all stations in a retailer's network to accept the loyalty program.

In addition, Wendy Kobler, marketing manager for Fiscal Systems Inc., Madison, Ala., says the system needs to provide relevant customer-tracking information. On top of that, "a business has to know how to use the information," she says.

**Training.** The simple act of a cashier asking for the customer's loyalty card during a transaction is a critical aspect that must be engrained into staff behavior.

**Marketing.** Retailers have to communicate to customers that the program exists and then continually promote the program to generate activity.

Beyond executing a loyalty program,

whether with a grocery partner or not, lies a more basic issue: that of simple, store-level execution. Brooks says keeping restrooms clean, making sure cashiers dress professionally and inter-

**"The more people there are on the lot, the more there are in the store."**

act well with consumers, and always looking for ways to "surprise and delight" people are all steps toward building loyalty.

"All that is bigger than the card," he says.

**Editor's Note:** Last June, Excentus filed a patent-related lawsuit against Pleasanton, Calif.-based Safeway. At press time, the grocer had discontinued its PowerPump rewards program, with a spokesperson saying the move was not related to the lawsuit. ■