

# Strong Ties

*With gasoline price as the main reason why consumers choose your store, smart retailers turn to loyalty programs to keep customers coming back.*

**BY JEFF LENARD**

**T**here's no disputing it: Consumer loyalty only lasts until their next fill-up. To win them back, the gasoline at your store, at that moment, must be at the most competitive price. The 2008 NACS Consumer Fuels Report (seen in the March 2008 *NACS Magazine*) proved that. In the report, 73 percent of consumers indicated that price was the main reason they selected a location to purchase fuel.

As consumer price sensitivity continues to shrink margins, and credit card fees pound retailers on the expense side, loyalty programs and new payment systems allow retailers to find relief. NACStech offered a number of solutions for retailers interested in defining customer loyalty around the

shopping experience, as opposed to the gas price.

## **FIND YOUR BEST CUSTOMERS**

Loyalty systems are clearly one way to move consumers off price. They also are something that consumers are quite familiar with and have already embraced. In 2006, the United States boasted of more than 1.3 billion loyalty program members — an average of 12 per person, said Rick Ferguson, editorial director of Colloquy, in the NACStech session “Sizing Up Loyalty in the Retail Fuel Industry.” Loyalty programs also are undergoing healthy growth — a nearly 6 percent annual growth rate in members, nearly double the annual growth rate of the U.S. gross domestic product.

What makes a great loyalty program? Knowing that some customers are simply more valuable. “Loyalty marketing is the effort to identify, maintain and increase the yield from best customers through long-term, interactive, value-added relationships,” said Ferguson.

In any loyalty program, a retailer needs to believe that not only are some customers more valuable, but that dialogue is the foundation of a great program and relationships with customers must be managed.

“Are customers connecting with your brand? Are you showing them that you are listening?” asked Ferguson. The best loyalty programs allow retailers to strategically use data to not only know what customers buy, but also



discover what they want. And that's not always discounts. Target your discount offers, stressed Ferguson. Provide soft benefits, such as special access and unique privileges.

"Create promotions that require additional purchases," added Jeannie Amerson, advertising and loyalty manager for Waycross, Georgia-based Flash Foods Inc., in the session "Loyalty Programs: It's Implemented, Now What?"

Loyalty programs are often inextricably linked to payment systems. "If a customer comes in to get gas and coffee, they really want three things: gas, coffee and points," said Terry Mahoney, a partner with W. Capra Consulting Group in the session "Alternative Payment Methods." He continued: "Loyalty customers are very loyalty-centric — if they can't use their loyalty card, they will be very unhappy."

### ACH PAYMENT

ACH (Automated Clearing House) debit is a huge opportunity to move customers to a less-costly payment method — and still instill rewards, according to Amerson.

When gas prices were a meager \$3.10 per gallon, a retailer would pay 97 cents to process a 10-gallon fill-up on a high-rewards credit card, she said. However, ACH payments can substantially reduce that amount to as low as 15 cents. Even after incenting customers with a 3-cent-per-gallon discount, or 30 cents for the fill-up, the savings amounts to 52 cents on that fill-up if the customer switches to an ACH payment method. Flash Foods' goal is to convert 20 percent of its credit card customers to its Go Blue ACH payment over the next year, which would result in annual savings for the company of \$666,000. (See sidebar for Flash's new program to further incentivize customers.)

Like loyalty programs, incentives are essential to change a customer's behavior. "People stick to payment methods that they are comfortable with unless there is a strong reward associated with it," said Doug Rodewald, also

### REWARDS IN A FLASH

Flash Foods Inc. will implement a two-tiered pricing strategy in early July that will provide discounts to customers who pay for their gasoline purchases with cash, as well as those who pay with their Flash Foods "Go Blue" ACH debit card. Additional discounts will be given to those who also use their Flash Foods "Rewards in a Flash" loyalty card. This is believed to be the first program in the country that offers cash discounts to both cash and ACH debit customers.

"With credit card fees destroying industry profits, people have been waiting for someone to take the lead in reducing these fees," said Flash Foods President Jimmy Walker. "This new pricing strategy allows us to reward those who pay for their fuel by cash, approved check or ACH debit — payment methods that are far less costly than credit cards."

With the national average for gasoline topping \$4 per gallon and credit card fees averaging 2.5 percent, gasoline retailers are currently paying 10 cents or more per gallon when a customer pays with a credit card. Meanwhile, the average gross margin for gasoline has averaged about 11 cents for 2008, meaning that for most credit card transactions, retailers are losing money on the fuel sale, when factoring in all other costs, which include utilities, rent and depreciation.

At Flash Foods, roadside price signs will display a price for unleaded fuel for purchase with credit and then a price for purchase with cash. The spread between the credit and cash/ACH debit price will help Flash Foods recoup part of the fees paid for processing credit cards.

With the program, a customer that uses a "Go Blue" loyalty ACH card will see the pump rollback to the cash price, which will be discounted approximately six cents, and also see the pump price roll back an additional three cents for a loyalty discount.

"With 'Go Blue' we are offering the convenience of paying at the pump with the rewards associated with cash discounts," said Flash Food Chief Information Officer Jenny Bullard.

a partner with W. Capra Consulting Group. But, added Mahoney, "There's gold in them there hills."

Ferguson also felt that ACH programs provide rich opportunities for retailers. "ACH is where we are seeing the most noise. However, it requires more participation by customers," he said, stressing to retailers, "You need to own it, you need to market it."

Open systems are more likely to handle new devices required to recognize

tags from new payment providers, noted Mahoney. "Stay with off the shelf, don't try to make everyone in the company happy" with a new system," he said.

As new loyalty and alternative payment programs — and technology platforms — emerge, retailers need to do their homework to find not just the system that works for them, but one that will last. "How do you avoid betting on the Betamax of payment systems?" asked Mahoney. ■

