

Sent: Friday, June 08, 2001 9:51 AM

Subject: CUSTOMER LOYALTY

Dear Aquathin Dealer On-Line;

Many of you have learned at Aquathin University and put into practice, the importance of customer loyalty because your client base is the single best source for new business. New business from providing additional systems for their residence, business and of course...referrals. We teach how to provide newsletters to your clients and incentives for referrals and discounts on future purchases. You will enjoy this article from our friends at Inc. Magazine on how a smart retailer in a highly competitive industry, focuses on customer loyalty.

Incidentally, in the not too distant future, you will see some interesting changes to the Aquathin website...AND you will be able to invite your customers to be added to our newsletter!

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"Alfie"

Alfred J. Lipshultz, President

The Best Little Grocery Store In America

Author: Susan Greco

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Inc. case study

Green Hills Farms developed a powerful customer-loyalty program to help it compete against giant rivals. Now large companies everywhere clamor for the store's secrets

The case

Is customer loyalty for sale? The proliferation of "frequent buyer" programs suggests that companies from coffee shops to airlines to drugstores think so. But what is customer loyalty? Can you really force customers to like you? Can you turn folks who habitually shop on price into devoted patrons? The managers of Green Hills Farms say no. Nevertheless, Green Hills -- a 67-year-old grocery store that, judging by its exterior, should have folded 66 years ago -- has developed a loyalty program that has

helped it successfully compete against giant rivals. It works so well that large companies from around the world now seek out the store's marketing advice. The program's secret: Green Hills knows -- really knows -- its best customers. To understand why Green Hills Farms inspires such devotion among its customers, you need to start with the turkey.

According to Green Hills CEO Gary Hawkins, the fat and frozen turkey is a symbol of all that's wrong with the bloated marketing habits of the grocery-store industry in which he competes. Specifically, he has a bone to pick with grocers who use the turkey to reward the thieves, that is, the bargain-thirsty, store-hopping, emotionally-unable-to-commit customers who methodically sweep into a store, spend a few bucks, and walk out with the big prize: a free or nearly free Thanksgiving turkey. That's the scene that plays out each November at countless supermarkets around the country. And which the Green Hills CEO detests. "The norm is to lose \$10,000 to \$20,000 giving away turkeys below cost to anyone who walks in the door," says Hawkins. That's a big loss for a business in an industry with notoriously bone-thin margins. For years Hawkins watched his Syracuse, N.Y., store take a hit on the free turkeys and thought to himself, "There has to be a better way."

Then one day Hawkins came to a decision that was as simple as it was revolutionary: Green Hills would stop helping the thieves and start rewarding its loyal customers.

Today when you join the Green Hills frequent-buyer program, you get more than an orange-and-green card to add to your key chain. Right off the bat, you get \$15 back for spending \$100. A designated "new customer manager" takes you on a personal tour of the store. Let's say you continue to spend \$100 a week, which qualifies you as a "Diamond" customer. Here are some of the perks for your patronage: First, you get a free 16- to 20-pound turkey -- fresh, not frozen, from a local farm, just in time for Turkey Day. And when the Christmas season starts, finding the perfect holiday tree will be a cinch. The Hawkins family will personally select a seven-foot Douglas fir for you and give it to you for nothing. There are plenty more little extras, too: for example, the \$25-off coupon in the garden shop in the spring. And six coupons throughout the year for 5% off your total purchase. Plus postcards in your mailbox announcing unadvertised specials on popular products like Pepsi, Sugardale ham, and Edy's Grand Ice Cream.

Furthermore, if you were a Diamond in 1999, you would be well stocked in the pots-and-pans department right now, having won yourself a free six-piece cookware set, an \$83 value. And if you were a high-spending customer back when the tornado of '98 hit, on Labor Day, well, you know what happened after the power outages -- the store sent you a letter and a 10%-off coupon to help you restock the fridge.

In other words, Green Hills takes care of you.

But what if you shop at the store now and then, when a bargain catches your eye? What if you spend, say, \$10 a week at Green Hills -- what do you get? Comparatively speaking, not much. And that's because the store not only knows who its customers are but can make meaningful distinctions among them. The bottom line: the store no longer wastes time and precious marketing dollars chasing folks who come in to pick the cheap cherries and pluck the underpriced turkeys. Says Hawkins, "It's a different way of life as a retailer, it really is."

Fighting the turkey thieves

The grocery store is an increasingly harsh battlefield for business. But doesn't every industry have its cherry pickers and turkey thieves? Consider the shoppers you know who are relentless in their pursuit of a deal. Instead of consolidating their purchasing, they're buying highly discounted products and services from a host of companies. With those customers there's no allegiance, no shortlist of preferred suppliers, and no hometown favorites. And just as often, no profits.

But what if you could find a way to turn some of those penny-pinchers into pinch hitters? And what if you had a way to ensure that your very best customers never left you? What if? Those are burning questions for managers everywhere, which helps to explain why customer-loyalty programs are hot. In the past decade there has been no lack of best-customer clubs, point programs, new twists on airline frequent-flier plans, and contests with spectacular prizes. Those programs flourish in commodity industries but can be found everywhere. Even colleges have caught the fever: one campus rewards students who faithfully attend every football game.

But perhaps no other sector has embraced the concept the way retail has. Online merchants have unleashed a flurry of new incentives for customers. But even old-line convenience stores that seem to defy the very notion of loyalty nevertheless have loyalty clubs. The result of all this purported loyalty building: the average American wallet is bulging with a rainbow-colored deck of paper, plastic, and bar-coded cards. Which has led to the inevitable next development: a "smart" card equipped with a tiny computer chip capable of storing information about dozens of loyalty-marketing programs. Some credit-card companies are already issuing smart cards for both in-store and online shopping. Imagine the possibilities for modifying product offers in real time. The possibilities extend beyond the retail sector, too.

All the advances sound great in theory. But do the programs really work? Can you really make customers more loyal? Given the cost of managing such a marketing program, what can a company hope to get back? Gary Hawkins has had time to ponder the issues and arrive at some meaningful answers. In fact, not long after there were tangible results to point to at Green Hills, large grocery-store chains started calling for advice on how to launch or fix their own frequent-shopper programs.

Before Hawkins could help anyone else, though, he had to puzzle through what was playing out on his own store floor. The frequent-buyer program's launch, in March 1993, was a nonevent. A blizzard blanketed Syracuse with three feet of snow, and hardly anyone showed at the store. Still, it wasn't long before Hawkins had reams of data at his disposal, thanks to the bar codes on Green Hills' frequent-buyer cards. But he had no idea what to do with the data. "I found myself staring at the numbers on the computer screen at all hours of the day, trying to figure out what was happening," Hawkins says.

Even so, the program appeared to be catching on -- about half the shoppers immediately started using their cards. By year two, 70% of them were. For the first time, Green Hills had the means to identify the majority of its 15,000 or so customer households by name. That was no mean feat. "You think you know everyone," says John Mahar, director of operations and a 21-year Green Hills veteran, "until you see the reports. There were people spending lots of money whom I didn't know, and 'regular' customers who weren't high spenders."

But Hawkins was hoping for more. Like perhaps a spike in sales.

The importance of the data didn't come into clearer focus until the fall of 1994. That's when Green Hills launched its first Great Gobbler Giveaway, an initiative that was as daring as it was scary for the little store. In order to be given a turkey, customers were required to commit to spending at least \$500 at the store over the 10 weeks leading up to Thanksgiving. "The biggest fear," says Hawkins, "was that people would not do their shopping with us." What was shocking was just how many customers did. In fact, Hawkins says, the number of customers spending at the \$50-a-week level increased approximately 25% over the number from the previous Thanksgiving season. However, overall sales did not increase substantially. What's more, Green Hills lost some customers during the 10 weeks. But there was good news: the store's gross margins went up.

What was happening? It was actually pretty simple. The turkey thieves went elsewhere, while the loyal customers spent more than usual. The result? Higher profits on the same level of sales.

What loyalty is and how you get it

As the CEO struggled to make sense of the data spewing out daily, he had to get his arms around some pretty hairy questions. Like, What does customer loyalty mean? From that first Great Gobbler Giveaway, he learned a bushful. For one thing, Green Hills had customers capable of spending much more than he'd imagined. Some asked why they hadn't won two turkeys! There were other customers who couldn't increase their spending and yet were loyal to the core. Senior citizens on a fixed budget, for example, asked if they could be included in the promotion. So Hawkins kept tweaking Great Gobbler each year until he arrived at four levels of rewards. Now customers spending as little as \$30 a week for 10 weeks still receive something.

By studying when, how often, and what people buy, Hawkins has gained a handle on degrees of loyalty. The way he sees it, there are two kinds: deal loyalty and relationship loyalty. Companies, he says, should appeal to customers on both levels. Deal loyalty is simple if not pure -- you essentially "buy" a customer for the length of a promotion. When customers give you their business for reasons other than price or

prizes -- for your customer service, say, or special privileges -- you've got relationship loyalty. While some customers simply live for the next promotion, others have warm feelings toward your business. "You learn which customers are which," says Hawkins.

Green Hills has gotten a lot of mileage from the warm-and-fuzzy kind. Despite a rather strange L-shaped structure that has been added on to "God knows how many times," says Hawkins, there's comfort in a store that hasn't changed much since the early 1970s. The meat department sits incongruously around the corner from a row of candy because, well, that's how it worked out. You do what you have to with just 22,000 square feet. But the customers go back three generations. Mothers and their daughters have worked the same cash registers. (There are 16 registers, which makes checking out of the small store superspeedy.) The hot-cross buns are still iced by hand in the bakery, and the produce comes primarily from local growers in season. The 10 managers have worked at the store for 5 to 39 years and know hundreds of customers by name. Even the PC monitors installed at each register greet you by name. For some customers, the intimacy of the small store cannot be beat.

"I won't go anywhere else," declares Carol Cranston, a schoolteacher who moved to Syracuse 20 years ago and has been shopping at Green Hills ever since. She doesn't think twice about spending \$250 on groceries in one sweep.

Hawkins is not naïve, however -- he knows customers like Cranston are exceedingly rare today. In Green Hills parlance, customers are categorized as Diamond at the top of the spending scale, followed by Ruby, Pearl, and Opal. Cranston is like a double Diamond. Few reach that level; about 300 customers qualify as Diamonds, consistently spending at least \$100 a week, while about a thousand more are Rubies, spending on average \$50 to \$99 a week.

At first Hawkins thought he could move lots of customers up the ranks. Now he knows better. Some customers patronize the store every two or three months; some of the very top spenders come in three to five times a week. The gap is too wide, and it's just too hard to convert price shoppers. Director of information services Lisa Piron agrees. "There aren't a lot of things you can do to get lower-spending households to spend more," she says.

Instead, the store decided to lavish far more attention on the big spenders. A few years ago Green Hills even threw a black-tie party in the store to meet more Diamonds and Rubies, and 200 attended. Not surprisingly, Diamond and Ruby revenues have increased while, predictably, Pearl and Opal revenues have not. But what the store may have lost in sales from the latter two groups it has made up in revenues from its top customers. The Diamonds and Rubies also have consistently been more profitable for Green Hills -- not because they're getting gouged on price but because their baskets include both marked-down and full-price items. Hawkins says there's a 10-point spread on gross margins between the top customers and the bottom customers. He declines to reveal his net profit, but in an industry where 1% net is considered good, it's safe to say the store has doubled that. "At the end of the day," he says, "the goal of any loyalty program is to improve the bottom line."

Today Green Hills is dedicated to ensuring that all customers get the rewards they deserve. As the resident database guru, Piron monitors whether the very best customers are truly receiving their rightful share of discounts. If they're not, she simply creates a new promotion exclusively for the big spenders. She is empowered to right other wrongs as well. For example, last year the store switched to a less expensive grade of Black Angus beef. After a few months Piron noticed that the lower-spending customers were consuming more of the meat but higher-spending shoppers less. She quickly responded by getting the old grade of Black Angus back and appealing to the slighted customers with a letter and a coupon.

How you measure loyalty

Several years ago Green Hills learned that two new competitors were moving into its neighborhood on the same day. (There are now six rival supermarkets close by. One is just across the Green Hills parking lot.) The event could have spelled disaster for the little grocery store. But Hawkins and his managers knew just what to do. They appealed to their loyal customers for support.

By then the store knew not only who the customers were but exactly what they liked to buy -- beef or chicken, deli salads or doughnuts. Turning to the database, Piron generated a list of best customers by

department. Then she composed a letter thanking each of them for being a good customer. She also enclosed a gift certificate that the customer could redeem in the store. Each certificate was for a gift basket tied to the customer's favorite department; department managers personally handed the baskets out. Hawkins reports that the store not only held its own against the new competition but even gained sales and a few new customers.

While most stores look at product shrinkage, or how much inventory the store loses because of theft or damage, Green Hills looks at customer shrinkage. It retains better than 96% of its Diamond customers each year. The overall year-to-year customer-retention rate is 80%.

Such loyalty provides leverage in negotiating better prices from vendors. Coca-Cola was so impressed by the sales numbers generated by the Great Gobbler Giveaway that last year it piggybacked on the rewards program with a special promotion of its own.

Green Hills also doesn't measure the effectiveness of its promotions the same way that other stores do. In the old days, Hawkins would judge a promotion a success or failure depending on the redemption rate (percentage of customers who participated) and the rise in sales. Simple measures, used by most retail stores. But once he started his loyalty program, the old marketing constructs didn't work. What's important now is who redeems the offer.

Knowing that, Green Hills took another bold step a few years back. The store drastically cut back on costly hit-or-miss Sunday newspaper circulars. Before launching the loyalty program, Green Hills spent upwards of \$6,000 a week on advertising, primarily in newspaper flyers. Hawkins now spends less than half that by distributing flyers only in the zip codes where the better customers live. With such savings, the loyalty program pays for itself.

Redistributing the "wealth" is crucial, says the Green Hills CEO. Many loyalty programs fail because companies try to have it both ways -- appealing to mass-market price shoppers as well as to big spenders. It takes discipline to stick to the program. "If you're not focused, it's a real expense," says operations director Mahar. "What are we here for? We drill it into each other."

How far can you go with loyalty?

On a chilling March day Hawkins pays a visit to his arch rival, the local Wegmans store that's part of a regional chain. As he strides through the entrance, he stops to admire the view. The 128,000-square-foot store -- completely rebuilt in 1995 -- seems to house multiple stores and restaurants. Gourmet eateries occupy a food court next to a gigantic produce section. One could use a bicycle to get to the other end of the store, where household goods in oversize packaging reach practically to the rafters. "This is what I have to compete with," Hawkins says. No sooner is he through the doors of Wegmans than he bumps smack into one of his own customers, a middle-aged man, who nudges Hawkins and says, "Hey, I didn't know you shop here." Hawkins pauses only for a second. "I don't," he replies. "I was looking for you."

For all the success of its loyalty-marketing program, Green Hills inevitably loses some customers. Still, it's a testament to Hawkins's savvy that little Green Hills can go head-to-head with this giant and still hold its own.

Not surprisingly, Wegmans too has a turkey promotion tied to spending. But the bigger store has yet to award Christmas trees. Presumably, it has the data it needs to do so. But it's what you do with the data that's the measure of any loyalty-marketing program. Does Wegmans know its customers the way the folks at Green Hills know theirs? Says Hawkins, "There are some advantages to being small."

[Susan Greco](#) is a senior writer at Inc.

The company

Green Hills Farms Store, in Syracuse, N.Y.

Business: Selling groceries

Size: 22,000 square feet

Financial summary: In 2000, sales were \$18 million and average weekly sales per square foot were \$16. (The industry average is about \$8 to \$10 per square foot)

Annual customer retention rate: 80%

Management: CEO Gary Hawkins; president Keith Hawkins; director of operations John Mahar; director of information services Lisa Piron

Origins: Founded as a farm stand by Gary Hawkins's great-grandmother in 1934

Capitalization: 100% owned by the Hawkins family

Strategy: Forgetting industry convention, organize marketing promotions around customers rather than products. Use frequent-shopper program to reward best customers to ensure their continued patronage and reap higher gross margins for the store

Competitors: National superstores like Wal-Mart, and supermarket chains Wegmans, Aldi, Price Chopper, and P&C, as well as several independents

The CEO

Gary Hawkins seems like the picture of a small-town grocer. Waving to customers and employees at the entrance of his store one recent day, he is approached by a middle-aged woman. "Do you know who I am?" she asks. Hawkins stares at her hard. Is this a test of his customer knowledge? After all, Hawkins's store prides itself on its collective ability to identify more than 10,000 shoppers by household name. But if this is a pop quiz, Hawkins is failing. The woman asks again, "Do you know who I am?" There's a sudden flutter of recognition. "Yes," he says. "How are you?" Later he explains: "Her daughter and I had our tonsils out at the same time. I haven't seen her in about 30 years."

It's been just as many years since Hawkins, who is 42, started stacking produce as a boy in the store run by his father. Green Hills Farms had been run by Gary Hawkins's grandfather before that. It was actually his great-grandmother Carrie Hawkins who had started the business as a farm stand in rural Syracuse to make ends meet during the depression. The family ran a dairy farm and also grew such crops as sweet corn and tomatoes. A fire in the 1940s destroyed the main dairy farm, but in the late 1950s Green Hills grew into a small supermarket. As luck would have it, a labor-union strike in the 1960s shut down all but the independent stores for a while, and Green Hills' business skyrocketed. In the 1970s Hawkins's father shut down the produce farm and opened two new locations, but the new stores closed amid growing competition.

Hawkins took over running the original store in 1985; sales then stood at about \$17 million. He seemed like the dutiful son come home to roost. In his first few years he ruffled few feathers. Hawkins admits the only reason he launched the Green Hills loyalty program was that he saw bigger supermarkets experimenting with their own frequent-shopper plans. But that one decision to institute a loyalty program at Green Hills changed his life. "Before, it was like operating blind," he says.

Now Hawkins travels the world helping other retailers see the light. (A few years ago he even self-published a book on loyalty marketing.) Never dreaming his life would be so different from his father's, Hawkins has logged more than 150,000 miles a year in his second job, as a consultant, flying across the United States and to South America, Europe, and Asia. Which means he is an expert on another form of loyalty marketing: airline frequent-flier plans.

Best practices

Trying out promotions on employees

Hawkins never forgets that his 75 full-time and 125 part-time employees are also customers. For example, before the store rolled out its first 5%-off promotion for shoppers who hit a spending target, Hawkins ran a similar program for employee households. And then he watched what happened. The approach has several benefits: employees spread the word of new promotions, and Hawkins gets real data. "Test, reward, and learn," he says.

Mining the database

Lisa Piron, who manages the customer database, plays a pivotal role. Each day, she tracks such measures as the customer-identification rate, percentage of households shopping that week, how many new customers the store is retaining, and markdowns as a percentage of sales. "If the numbers are off, I start poking around," she says. She even drills down to the customer-defection rate per department.

A marketing peer group

Hawkins and five other noncompeting grocery-store owners meet once a year (and keep in contact more often by phone and E-mail) to exchange marketing ideas. "We all have loyalty programs, and we're all trying to push the envelope," he says. The group's members include both U.S. and overseas chains such as Virginia-based Ukrop's, Dorothy Lane Markets in Ohio, and Superquinn of Ireland.