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Retailtalk



Wind Chill Factor

The 2010 COLLOQUY Canadian Retail Loyalty Index

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Wind Chill Factor

THE 2010 COLLOQUY CANADIAN RETAIL LOYALTY INDEX



Introduction

As a retailer, you know how *you* define loyal behavior. But, do you know how your customers define loyalty? Perhaps more important, do you know how loyal your most frequent customers really feel toward your retail banner?

These are among the questions that COLLOQUY sought to answer with our inaugural Canadian COLLOQUY Retail Loyalty Index study of 3,500 Canadians.

As we slowly recover from the Great Recession, we're seeing the residual effects of the economic storm that chilled commerce around the world—including, of course, consumer activity in North America. The chill obviously affected consumer spending and transaction levels. But, the COLLOQUY Retail Loyalty Index reveals that it also affected the consumers' self-professed loyalty to individual retail brands. In short, many consumers driven by a need for frugality and prudence shifted their proclaimed loyalties to the low-price leaders in Canada.

The good news is that the Great Recession did not slam the Canadian economy as hard as its counterpart in the United States. But Canadian retailers still struggled to keep their customers and to attract new ones. In 2009, Canada's jobless rate as a percentage of the labor force remained lower than in the U.S., reaching a high of 8.7% in August 2009, according to Statistics Canada, easing to 8.4% by the end of 2009. The rate in the U.S., as measured by U.S. Bureau of Labor Statistics, was 9.7% in August and 10.0% in December.

Similarly, the loyalty shift toward the low-price retailers and discounters was not as pronounced in Canada as it was in the 2010 COLLOQUY U.S. Retail Loyalty Index study of 3,500 Americans.

Perspective and Future

The COLLOQUY Retail Loyalty Index debuted in 2008 with a focus on U.S. loyalty patterns, and the study was conducted again in early 2010—with U.S. results published under the title “RetailTalk: What Price Loyalty?” and Canadian results published in this white paper. These tracking studies reveal the differences in how consumers define loyalty and how their loyalties have shifted under recessionary pressure. They also show that Canadian retailers may yet feel the same level of impact, and the same level of severe challenges in retaining customer loyalty, experienced by their U.S. counterparts.

In “RetailTalk: What Price Loyalty?”, we found that price was king in terms of driving loyalty in the U.S., with brands built on low prices rocketing to the top in nearly every studied category. This was a marked change from the findings of our 2008 COLLOQUY U.S. Retail Loyalty Index, conducted when economic conditions were more temperate.

This, our first published COLLOQUY Canadian Retail Loyalty Index, shows that the 2010 news in Canada is much better for retailers who have built loyalty to their brands with a more diversified approach than simply promising the lowest price. While the likes of Walmart and Costco have been making notable inroads into Canada, they are not yet winning the hearts and minds of Canadian consumers as we saw in our 2010 results in the States.

The reason for the difference is four-fold:

- **As noted previously, the recession has not hit Canada as hard as it hit the U.S., and recovery may well be swifter in Canada.** Earlier this year, the Bank of Canada forecast 3% growth of the Canadian economy in 2010 fueled by consumer spending, versus a 2.4% contraction in 2009.
- **The major U.S. discount brands are still in the early stages in their growth in Canada.** The discounters have not scored clear victories in the battle for the hearts, minds and wallets of consumers. Instead, despite the gains of discounters in a very tough economy, many well-established brands have managed to maintain their hold on customer loyalty.
- **Canadian retailers have been active in the discount game for some time now, already pushing toward the need for greater value.** While Walmart Supercenters are less developed in Canada than in the States, discount is not. In fact, by some estimates, as much as 30% of grocery retail revenues in Ontario are driven by discount formats. And, Canadian retailers, particularly in Grocery, have employed savvy management of a range of banners to appeal to segments of various levels of price sensitivity. The net effect is that the price differential between the traditional brands and the discount brands is much smaller than between similar types of brands in the States.
- **Canadian consumers are more aware of the potential of loyalty program rewards in better enduring tough economic times,** thanks to the more mature loyalty environment, borne of a long familiarity with currency-based programs.

That said, the well-established long-time leaders among Canadian retail brands must be mindful of the encroachment of the discounters (their own discount banners included) and heightened price sensitivity—and they must be vigilant. As seen in the COLLOQUY Canadian Retail Loyalty Index results the Grocery and Personal Care sectors, Canadian retailers can view the consumer responses as heartening news as consumers report greater stability of loyalty to traditional brands than in the U.S.

But more importantly, they must view it as a rallying cry. For example, the wind chill effect of Walmart’s “Every Day Low Prices” (EDLP) threatens to grow in intensity. And, if that message is expanded with a more cohesive focus on grocery and health and wellness categories, the cooling effect on Canadian consumer loyalties could grow even further. Fighting back in a strategic manner may become the order of the day. Walmart Canada grew sales by 4.9% in Q1 2010, in large part due

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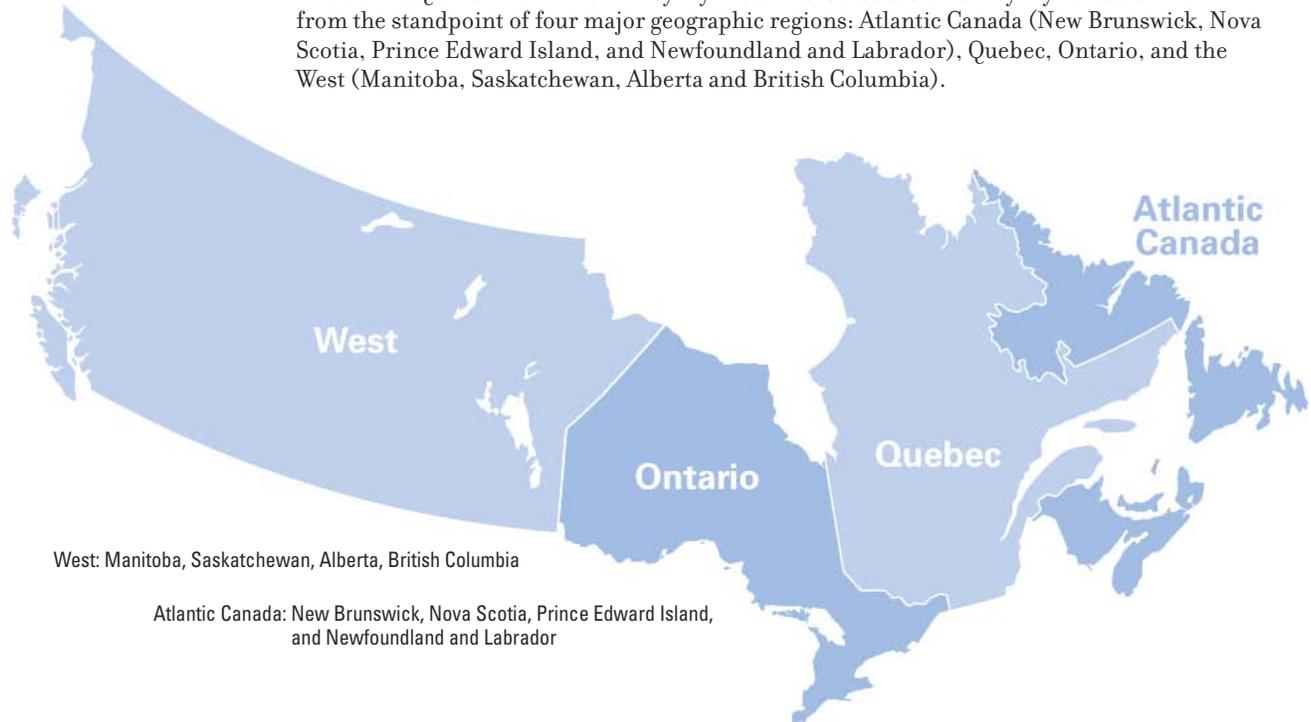
Keeping the results of the 2010 COLLOQUY Canadian Retail Loyalty Index in mind, retailers can—and must—continue the loyalty strategies that have served them well and develop even more-innovative loyalty initiatives for the marketplace as we move slowly out of the recession.

to expansion of Supercenters (American spelling and all—with 32 more than in Q1 2009—and more than that planned for 2010), as Doug McMillon, President and CEO of Wal-Mart International, noted in Wal-Mart Stores' Q1 2010 earnings call. "This is twice that of the market and represents a record high in market share, according to Statistics Canada data," he said. This shows that—without continued vigilance—the discount approach will be making more strides in the Canadian marketplace. So, how do Canadian retailers maintain and deepen customer loyalty in the face of savvy and formidable competitors trying to take a bigger chunk of their business?

Keeping the results of the 2010 COLLOQUY Canadian Retail Loyalty Index in mind, retailers can—and must—continue the loyalty strategies that have served them well and develop even more-innovative loyalty initiatives for the marketplace as we move slowly out of the recession. Retailers that maintain a customer-centric focus, that offer the right mix of service and selection, and that continue to sharpen their awareness of their customers' needs, can succeed without simply arming themselves for a price war in which, as the shifts indicated in our research confirms, even the winners will not return home unscathed.

Part I: Regional Loyalty Ratings

The COLLOQUY Canadian Retail Loyalty Index measures customer loyalty across Canada from the standpoint of four major geographic regions: Atlantic Canada (New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador), Quebec, Ontario, and the West (Manitoba, Saskatchewan, Alberta and British Columbia).



Our survey walked respondents through an exploration of their attitudes and perceptions about retail brand loyalty. We took them through the following steps:

- First, we asked respondents to think about their own personal experiences with the retailers at which they shopped most often in the past three months.
- Next, we asked them to rank, on a scale of 1 to 10, their loyalty to each retailer; a rank of 1 meant “not loyal” and a rank of 10 meant “very loyal.”
- We then tabulated a mean average for each retail category and the store formats within each category. We compared only those retailers with a meaningful sample size and frequency, slicing the data into the four regions detailed above.

The tables that follow detail two types of ranking:

1. Frequency, listing the retailers that survey respondents reported that they frequented most within the previous three months.
2. Loyalty, listing those retailers our survey respondents noted that they were most loyal to, which we term “Index Leaders,” ranked according to the COLLOQUY Canadian Retail Index’s mean loyalty scores.

We also explored how Canadian consumers defined loyalty. That is, what behaviors, in their eyes, demonstrate retail loyalty? Such behaviors can range from customers being willing to recommend, to customers dedicating wallet share to a particular retailer, to customers frequenting sales and promotions.

We surveyed consumers about four retail categories: Grocery, Personal Care, Department Store, and Mass Merchant. For the purposes of brevity and focus, this white paper concentrates on Grocery and Personal Care, where the trends are more incisive and more instructive. Exhibit 1 compiles the self-reported Frequency leaders and the COLLOQUY Retail Loyalty Index leaders in all four categories in all four regions.

Exhibit 1
Retailers Ranked by Purchase Frequency and Reported Loyalty, by Region

	Most Frequent	Index Leader	Index	
	Atlantic Canada: Newfoundland and Labrador, New Brunswick, Prince Edward Island, Nova Scotia			
	Grocery	Sobeys	Sobeys	8.5
	Personal Care	Shoppers Drug Mart/Pharmaprix	Shoppers Drug Mart/Pharmaprix	8.6
	Department Store	Walmart	Walmart	7.3
	Mass Merchant	Walmart	Walmart	7.4
	Quebec			
	Grocery	IGA	IGA	9.0
	Personal Care	Jean Coutu (PJC)	Jean Coutu (PJC)	8.6
	Department Store	Walmart	Canadian Tire	8.1
	Mass Merchant	Walmart	Sears	8.1
	Ontario			
	Grocery	Nofrills	Zehrs	8.9
	Personal Care	Shoppers Drug Mart/Pharmaprix	Zellers	8.4
	Department Store	Walmart	Sears/Zellers (tie)	7.8
	Mass Merchant	Walmart	The Bay	7.9
	West: Manitoba, Saskatchewan, Alberta, British Columbia			
	Grocery	Safeway	Costco	8.8
	Personal Care	Walmart	Costco	8.6
	Department Store	Walmart	Canadian Tire	8.2
	Mass Merchant	Walmart	Canadian Tire	7.8

Source: 2010 COLLOQUY Retail Loyalty Index study, Canadian results

Frequency Questions:

- Which of the following retailers have you purchased from in the past 3 months? Please select all that apply.
- And from which retailer do you purchase [type of product] most often? Please select one only.

Loyalty Index Question:

- Thinking about the retailer you use most often; how "loyal" would you say you are to the retailer? Please use a scale from 1 to 10 where 1 means "not at all loyal" and 10 means "very loyal".

A quick glance at Exhibit 1 shows Walmart surfacing at the top of a range of regions and retail formats. In the Grocery and Personal Care sectors, there is a useful story, one with a happy ending so far for traditional retailers in these formats. But, nevertheless, that story is a cautionary tale.

Retail Index 1: Grocery Retailers

Exhibit 2 Grocers Ranked by Purchase Frequency and Reported Loyalty, by Region



Rank	Most Frequent	Index Leader	Index
Atlantic Canada: Newfoundland and Labrador, New Brunswick, Prince Edward Island, Nova Scotia			
1	Sobeys	Sobeys	8.5
2	Atlantic Superstore	Atlantic Superstore	8.4
Quebec			
1	IGA	IGA	9.0
2	Métro	Loblaws	8.6
3	Super C	tie Maxi Métro	8.4 8.4
Ontario			
1	Nofrills	Zehrs	8.9
2	Métro	Food Basics	8.5
3	Food Basics	Sobeys	8.4
West: Manitoba, Saskatchewan, Alberta, British Columbia			
1	Safeway	Costco	8.8
2	Real Canadian Superstore (RCSS)	tie Real Canadian Superstore (RCSS) Safeway	8.5 8.5
3	Save-On-Foods	Save-On-Foods	8.4

Source: 2010 COLLOQUY Retail Loyalty Index study, Canadian results

Frequency Questions:

- Which of the following retailers have you purchased from in the past 3 months? Please select all that apply.
- And from which retailer do you purchase **groceries** most often? Please select one only.

Loyalty Index Question:

- Thinking about the grocery retailer you use most often; how "loyal" would you say you are to the grocer? Please use a scale from 1 to 10 where 1 means "not at all loyal" and 10 means "very loyal".

The Retail Landscape

The Canadian grocery landscape is characterized by well-established retailers with considerable representation across the country, including Loblaws, Sobeys, Metro and Safeway. These retail powerhouses also operate multiple retail banners in each region and in each price category, such as low-price warehouse formats. As noted previously, Canadian grocers have been deploying the everyday low price (EDLP) approach more aggressively and for a longer time than American grocers.

Many of these chains enjoy customer loyalty and regional pride, even for the foreign-owned franchises. Safeway, for instance, is an American-owned grocer that has earned status as a Canadian icon given its generations-long presence in the country.

Canadian grocery store footprints are generally less fragmented than the footprints of U.S. grocers. Much of the Canadian population is centered in urban areas, and the existing grocers are well-ensconced within those centers. New players are left with location challenges, forced to establish their square footage in the suburbs. With existing low-price options close by, consumers are less inclined to go out of their way for the newer price options. These factors make potential incursion from the outside a bit tougher, but hardly impossible.

Our 2009 SegmentTalk study, "The Canadian Difference," showed that an astounding 93.6% of respondents claim to participate in a loyalty-marketing program—a penetration rate nearly 40 percentage points higher than the U.S. survey response. This finding confirms the maturity of the loyalty business in Canada.

For example, note the progress Costco is making in the West, taking the top position as a COLLOQUY Retail Loyalty Index leader. In the West, two grocers have been traditionally strong: Overwaitea Food Group—whose banners include Overwaitea, PriceSmart Foods and Save-On-Foods (the latter of which appeared in the top three in terms of self-reported Frequency), and Safeway, with its slogan "Thousands of Everyday Lower Prices." Pricing powerhouse Real Canadian Superstore (RCSS) ranked well in both self-reported Frequency and as a Loyalty Index leader in our study, but if low-price chain Costco—a powerhouse in the States—adds store locations, its impressive performance in establishing customer loyalty will begin to push the brand higher in the Frequency rankings. Given Costco's business model—a membership fee to join and bulk purchases that would suppress the need for frequent store visits in some categories—would a bigger presence pull business—and loyalty—from the traditional grocers and low-price banners?

The Role of Loyalty Strategies

Canadian retail benefits from a more mature loyalty marketplace than that in the U.S. While the U.S. marketplace is dominated by proprietary programs, Canada is dominated by a true national multi-merchant coalition loyalty program, the *AIR MILES Reward Program*, and a strong partner airline program in *Aeroplan*. In addition to these programs, storied proprietary programs such as the *Canadian Tire Money* program (introduced in 1957) contribute to loyalty program savvy among consumers. Our 2009 Loyalty Demographics study, "SegmentTalk: The Canadian Difference," showed that an astounding 93.6% of respondents claim to participate in a loyalty-marketing program—a penetration rate nearly 40 percentage points higher than the U.S. survey response. This finding confirms the maturity of the loyalty business in Canada—and certainly that maturity benefits the Grocery category, as well.

Sobeys, for instance, has multiple stakes in loyalty-program strategies, with its Ontario-based *Club Sobeys* program, in which members earn points redeemable for in-store discounts and can convert *Club Sobeys* points to *Aeroplan* points, if desired. In the Atlantic provinces, Sobeys is a sponsor of the *AIR MILES Reward Program*. IGA in Quebec, Metro in Ontario and Safeway in the Western provinces are *AIR MILES* sponsors, as well.

Loblaws' *PC Points* program (with related initiatives like the *PC Insider's Club*) is run through its various banners. Other significant programs include the *Save-On-More* program from Save-On-Foods (points redeemable from a merchandise catalog). What's more, two new loyalty program launches have been announced in the last several weeks: Metro intends to launch a stand-alone program in Quebec called *metro&moi*. And, Walmart Canada announced a new discount-based program in which customers can earn a 1.25% discount on purchases made on the Walmart Mastercard.

The common thread of such efforts is Canadian grocers' access to data, and their use of such data to preserve customers' business. American grocers have typically been less aggressive in leveraging the data that's at their disposal.

The Results

As we look at the COLLOQUY Retail Loyalty Index rankings within the Grocery sector (shown in Exhibit 2), we see some interesting stories playing out. In Ontario, for example, we see price as a significant driver of consumer's self-reported loyalty. Chains that emphasize low prices—such as Zehrs (a Loblaws banner) and Food Basics (a Metro banner)—are at the top of the COLLOQUY Retail Loyalty Index leader list in Ontario. This result suggests that price is exerting a bigger influence on customer loyalty in Ontario than in other regions. For further evidence, low-price brands also took the top two spots in self-reported Frequency in Ontario.

Another leverage point for big-box discounters may lie in the East, where Sobeys and Atlantic Superstore (a Loblaws banner) are dominant. In fact, in Atlantic Canada, no grocer surfaced as the clear third-place COLLOQUY Retail Loyalty Index leader or the third-place self-reported Frequency leader, and the very lack of shopping alternatives may leave room for encroachment by newcomers, which may in part explain Loblaws' recent introduction of Nofrills stores into Atlantic Canada.

Still, the strength of the traditional brands—Sobeys in Atlantic Canada and IGA and Loblaws in Quebec (where Costco and its Price Club banner play a big role)—with some of them *gaining* ground in the recession, shows the power of continued vigilance and relying on brand strengths to continue to satisfy customers.

Atlantic Canada. Sobeys, well-established in the eastern provinces, ranked at the top both as a COLLOQUY Retail Loyalty Index leader and as the self-reported Frequency leader. Atlantic Superstore, which also maintains a strong position in Atlantic Canada, ranked second in both categories.

Quebec. IGA was the clear leader in both the COLLOQUY Retail Loyalty Index and in self-reported Frequency in this province. Loblaws took the second loyalty ranking, while Metro tied with Maxi (a price-based big-box format) for third.

Ontario. Zehrs (a regional Loblaws banner) was the COLLOQUY Retail Loyalty Index leader in this province, followed by Food Basics and Sobeys. In self-reported Frequency, low-price brand Nofrills in the number-one position, followed by Metro in second and Food Basics in third.

West. In the western provinces, the spotlight shines on Costco's number-one position as the COLLOQUY Retail Loyalty Index leader. Safeway and Real Canadian Superstore (RCSS) tied for second (and placed one-two in self-reported Frequency).

So—in Ontario—it seems that the battle for customer loyalty is shifting more to a greater emphasis on price. And Canadian grocers continue to pay attention, using their bargain banners—and the groundwork they laid in reducing the price differential between traditional formats and price-leader formats—to maintain market share as invaders from the south like Walmart and Costco slowly make their presence felt.

Value is clearly top of mind among grocery consumers. When we correlated shoppers with high willingness to recommend (one standard way of gauging loyalty) with what drives those consumers' loyalty, value for money and product quality topped all other loyalty drivers in this year's COLLOQUY Retail Loyalty Index study. Lagging behind were a pleasant store environment and helpful and knowledgeable staff.

It's too early in the recovery to speculate whether consumers will continue to push price to the top their priority list when determining their loyalty, but COLLOQUY will keep an eye on this trend in the months ahead, and long-time Canadian brand leaders would be wise to do the same.

When we correlated shoppers with high willingness to recommend (one standard way of gauging loyalty) with what drives those consumers' loyalty, value for money and product quality rose definitely above other loyalty drivers in this year's COLLOQUY Retail Loyalty Index study.

Retail Index 2: Personal Care Retailers

Exhibit 3

Personal Care Retailers Ranked by Purchase Frequency and Reported Loyalty, by Region



Rank	Most Frequent	Index Leader	Index
Atlantic Canada: Newfoundland and Labrador, New Brunswick, Prince Edward Island, Nova Scotia			
1	Shoppers Drug Mart/Pharmaprix	Shoppers Drug Mart/Pharmaprix	8.6
2	Sobeys	Walmart	7.9
Quebec			
1	Jean Coutu (PJC)	Jean Coutu (PJC)	8.6
2	Walmart	tie Shoppers Drug Mart/Pharmaprix Walmart	8.5 8.5
3	Other personal care retailer		
Ontario			
1	Shoppers Drug Mart/PharmaPrix	Zellers	8.4
2	Walmart	tie Walmart Supercenter Shoppers Drug Mart/Pharmaprix	8.3 8.3
3	Walmart Supercenter	Rexall Pharma Plus	8.2
West: Manitoba, Saskatchewan, Alberta, British Columbia			
1	Walmart	Costco	8.6
2	Shoppers Drug Mart/Pharmaprix	Shoppers Drug Mart/Pharmaprix	8.4
3	Real Canadian Superstore (RCSS)	London Drugs	8.3

Source: 2010 COLLOQUY Retail Loyalty Index study, Canadian results

Frequency Questions:

- Which of the following retailers have you purchased from in the past 3 months? Please select all that apply.
- And from which retailer do you purchase **personal care items** most often? Please select one only.

Loyalty Index Question:

- Thinking about the personal care retailer you use most often; how "loyal" would you say you are to the retailer? Please use a scale from 1 to 10 where 1 means "not at all loyal" and 10 means "very loyal".

The Retail Landscape

The story in the Personal Care category is similar to that in Grocery, but the evidence of encroachment from Costco and Walmart is more dramatic in this sector. As seen in Exhibit 3, Walmart regularly appears in both the self-reported Frequency and COLLOQUY Retail Loyalty Index rankings. The iconic Canadian brands are obviously feeling the bite of the Every Day Low Price approach from the U.S. giant. As the jobless rate continues to decline and the economy grows stronger, perhaps consumers will revert to previous loyalties, but retailers certainly cannot count on that happening. The canary in the mine is singing louder than ever, and brands hoping to retain—or regain—their standing within the marketplace had better hear the tune.

In Ontario, Walmart and Walmart Supercenter finished second and third in self-reported Frequency, a trend worth noting. And in the West, Costco placed as the number-one COLLOQUY Retail Loyalty Index leader—the same position that Costco holds in the Grocery category. Combine that with Walmart's position as the self-reported Frequency leader, and we see a clear indication that these discounters have become significant players in the Personal Care category.

Despite the low-price incursions and the prospects for even greater competition, Personal Care retailers have considerable firepower to retain customers and customer loyalty on their terms. It's not all about price—it's about what you deliver and how you deliver it.

The Role of Loyalty Strategies

There's also good news in that loyalty program sophistication remains a viable defense in the Personal Care category—particularly for programs that deliver solid value to price-conscious shoppers. Shoppers Drug Mart/Pharmaprix makes a consistently strong showing in both the COLLOQUY Retail Loyalty Index and in self-reported Frequency. Specifically, this chain was either first or second (by itself or tied) in the loyalty list in all Canadian regions.

The strength of Shoppers Drug Mart's showing is surely influenced by the chain's successful *Shoppers Optimum* loyalty program in which points earned are redeemable for discounts, and its *Shoppers Optimum PLUS* program introduced in 2008, which rewards its most-loyal shoppers with a diverse array of redemption opportunities.

In the Western provinces, Rexall offers customers the opportunity to earn *Aeroplan* miles. Similarly, Uniprix awards one *Aeroplan* mile for every dollar spent at their pharmacy locations in Quebec.

Several Personal Care retailers leverage their participation in the *AIR MILES Reward Program*. Jean Coutu (in Quebec), and *Rexall Pharma Plus* (in Ontario), Safeway (in the Western provinces) and Lawtons and Pharmasav (in the Atlantic provinces) are all sponsors in the *AIR MILES Reward Program*.

Note, too, another bit of evidence of loyalty defense: British Columbia-based London Drugs, with only 73 stores, played David among the Goliaths, and showed that it continues to hold the hearts of its customers with an emphasis on, as they describe it, "innovation, and a continued involvement in the communities we service" in the West. Granted, London Drugs is something of an unusual hybrid of pharmacy and electronics store and its model provides lessons not in specific format but in unique satisfaction of customer needs. Still, how long such beloved brands can continue to compete with Costco and Walmart remains to be seen.

The Results

As we focus on the COLLOQUY Retail Loyalty Index ratings for the Personal Care sector (see Exhibit 3), the following highlights are notable:

Atlantic Canada. Shoppers Drug Mart/Pharmaprix also took the top spot as the COLLOQUY Retail Loyalty Index leader, ahead of Walmart. The margin between number-one and number-two was wider here than in any other region. In this region, as with Grocery, there was no clear third-place finisher.

Quebec. Pharmacy chain Jean Coutu (JCP) took the number-one spot in both the COLLOQUY Retail Loyalty Index and the self-reported Frequency rankings in this province. Walmart tied for second with Shoppers Drug Mart/Pharmaprix in Loyalty, and finished second in Frequency.

Ontario. In Ontario, there is a very close race with all three leaders claiming a very similar COLLOQUY Retail Loyalty Index score. Zellers, another discount banner, took the top spot as the COLLOQUY Retail Loyalty Index leader. Tied for second were Walmart Supercenter and Shoppers Drug Mart/Pharmaprix, which finished first in self-reported Frequency. Both Walmart and Walmart Supercenter made the self-reported Frequency list.

West. In the western provinces, Costco ranked a strong first as the COLLOQUY Retail Loyalty Index leader, with Shoppers Drug Mart/Pharmaprix finishing second and regional chain London Drugs placing third.

Despite the low-price incursions and the prospects for even greater competition, Personal Care retailers have considerable firepower to retain customers and customer loyalty on their terms. As an example, when we correlated Personal Care consumers who reported high willingness to recommend (as noted previously, one standard way of gauging loyalty) with what drives those consumers' loyalty, a pleasant store environment topped the list. That particular driver beat quality of product and value for money, both of which followed closely behind. It's not all about price—it's about what you deliver and how you deliver it.

Part II: What Price Loyalty?

Complaints about Walmart entering a market and driving out the mom-and-pop stores are an old story in the States. Many a corner grocery and drugstore on Main Street USA has closed its doors not long after Walmart moved in, planting a big box featuring Every Day Low Prices just outside of town. More recently, the price clubs, such as Costco, have eaten their share of the small fry. And the market domination didn't stop with the small retailers—the mass-merchant clout of the big-boxes has had serious impact on major chains. The largest grocer in the U.S. by sales is, yes, Walmart.

On Main Street Canada and beyond, that scenario has been slower to evolve, but in this survey we are beginning to see it play out. The performance of low-price banners—Canadian brands as well as Walmart and Costco—in the 2010 COLLOQUY Canadian Retail Loyalty Index survey indicates that consumers in the time of the Great Recession refocused their purchase choices on price. In one portion of our survey, consumers told us that directly.

In a previous COLLOQUY study conducted in 2008, we asked Canadian consumers how they define loyalty, segmenting the results among the following demographic groups:

- **General Population:** A weighted representation of each of the five specific segments and other segments not covered below—essentially serving as a control group, representative of the entire Canadian adult population.
- **The Affluent:** Male and female heads of households with annual incomes of CDN\$125,000 or greater.
- **Young Adult segment:** Respondents age 18 to 25.
- **The Senior segment:** Respondents age 60 or older.
- **Core Women segment:** Female respondents 25 to 59 with an annual income between CDN\$50,000 and CDN\$125,000.
- **Quebecers.** Adult residents of Quebec.

We asked respondents an open-ended question about their definition of loyalty and the primary determinants of their loyalty in general. Respondents were allowed to answer anything—“Please type in as much as you would like to.” Their responses were coded into related categories.

In 2008, with the exception of the Young Adult segment, all demographics ranked Customer Service as the most important factor in gaining and keeping their loyalty. Competitive Price finished a distant second.

In our 2010 COLLOQUY Retail Loyalty Index, we included the same question and the same methodology. This time around, consumers in the General Population ranked Competitive Price as the number-one factor in determining their loyalty. Exhibit 4 ranks the most frequently cited response categories from the 2010 study, revealing an overwhelming shift from prioritizing Customer Service toward prioritizing price—which explains why we see so many low-priced banners at the top of the charts while some iconic banners have slipped.

The performance of low-price banners—Canadian brands as well as Walmart and Costco—in the 2010 COLLOQUY Canadian Retail Loyalty Index survey indicates that consumers in the time of the Great Recession refocused their purchase choices on price. In one portion of our survey, consumers told us that directly.

Exhibit 4
Consumer-Reported Factors of Loyalty to Retailer Types, by Demographic Segment (Open-Ended Response)



Source: 2010 COLLOQUY Retail Loyalty Index study versus previous study, Canadian results

Question:

- Many consumers such as yourself talk about being “loyal” to a retailer. Think about a specific grocer or pharmacy you purchase from that you might describe yourself “loyal” to. What made you “loyal” to that retailer? Please type in as much as you would like.
- (Coded, open-ended response. Frequency of response was used to determine the rank order.)

Among the General Population, the number of responses indicating Customer Service dropped 18.3%. Customer Service was the top determinant among Seniors and Core Women, but even so, the number of responses for Customer Service plunged around 20%. Quebecers reported an even more significant drop, at 24.9%. The only Customer Service score that was *not* blown off a cliff by the economic jet stream was reported by Young Adults (who also indicated Customer Service as the top determinant)—and though it rose, the rise was statistically insignificant.

Given the tough economic times we’re weathering, a rise in the importance of price in determining loyalty could be expected, but it’s surprising to find that price has risen so dramatically among a consumer’s loyalty priorities. We’re seeing a trend that had begun gaining momentum suddenly get a tailwind boost from a flagging economy. Even traditionally more-discerning shoppers began to focus primarily on the price tag. Again, looking to the south for that chill wind, the 2010 COLLOQUY Retail Loyalty Index revealed sharp shifts in the U.S. reported factors. From 2008 to 2010 in Grocery and Personal Care as well as in Specialty Retail, Low Prices swapped the number-one and number-two positions with Customer Service in the minds of consumers (Low Prices had already assumed the number-one slot in the Department Store and Mass Merchant categories by 2008). In all three groupings, Quality Products rose to the third position. An intensified quest for value is on the way.

The good news is that Customer Service appears to remain a viable tool for maintaining loyalty among Canadian consumers. Customer Service as a reported loyalty driver may have taken a hit in our Canadian Retail Loyalty Index, but it’s still standing as one of the primary drivers—first among Young Adults, Seniors and Core Women, and second among the Affluent and the General Population.

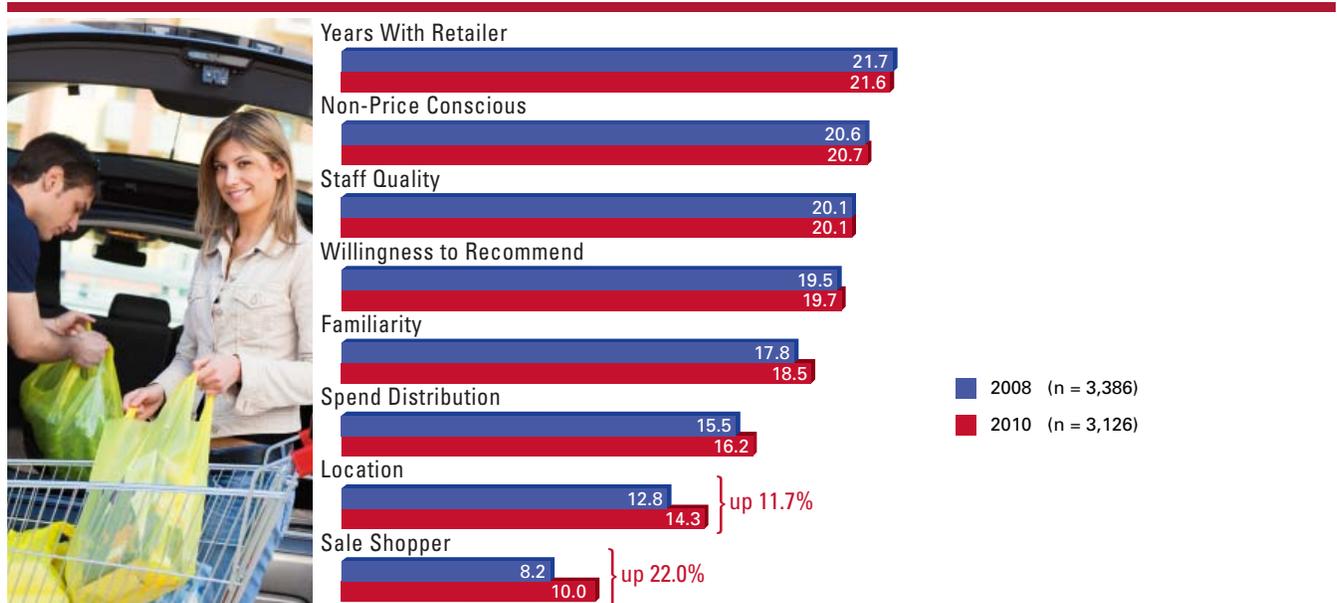
The 2010 COLLOQUY Canadian Retail Loyalty Index also repeats a directed-choice question from the 2008 study, inquiring about consumer rankings of what demonstrates loyalty to a retailer. We asked:

“Total Shopping” is a retailer of groceries, personal care items and medications. Please read all eight customer experiences below and indicate for each how loyal you think that the customer is to “Total Shopping”. Please use a scale from 1 to 25 where 1 means “not at all loyal” and 25 means “very loyal”. You can pick any number from 1 to 25 for each experience, but cannot use the same number twice.

- Rachel tells family/friends to go to “Total Shopping” (*Note: This response was categorized as “Willingness to Recommend”*)
- Shannon spends about half her budget at “Total Shopping” and uses several other retailers for the rest (*categorized as “Spend Distribution”*)
- Jennifer shops at “Total Shopping” mainly because it is close to home
- Monica shops at “Total Shopping” only if there are deals or sales (*categorized as “Sale Shopper”*)
- Chris shops at “Total Shopping” even though it is more expensive (*categorized as “Non-Price Conscious”*)
- Pat has been shopping at “Total Shopping” for over 10 years (*categorized as “Years With Retailer”*)
- Suzie shops at “Total Shopping” because she is very familiar with the products they carry and where they are located in the store (*categorized as “Familiarity”*)
- Joan shops at “Total Shopping” because the staff know her and treat her like a valued customer” (*categorized as “Staff Quality”*)

Results comparing the responses appear in Exhibit 5A. With two exceptions, the reported perception of loyalty demonstration by all categories of behavior remained stable from survey to survey. Those exceptions: Location, with an 11.7% jump in mean score (efficiency of shopping and reduced gas costs, perhaps?), and the far more significant 22.0% jump in mean score in Sale Shopper. Consumers increasingly associate price devotion with brand devotion.

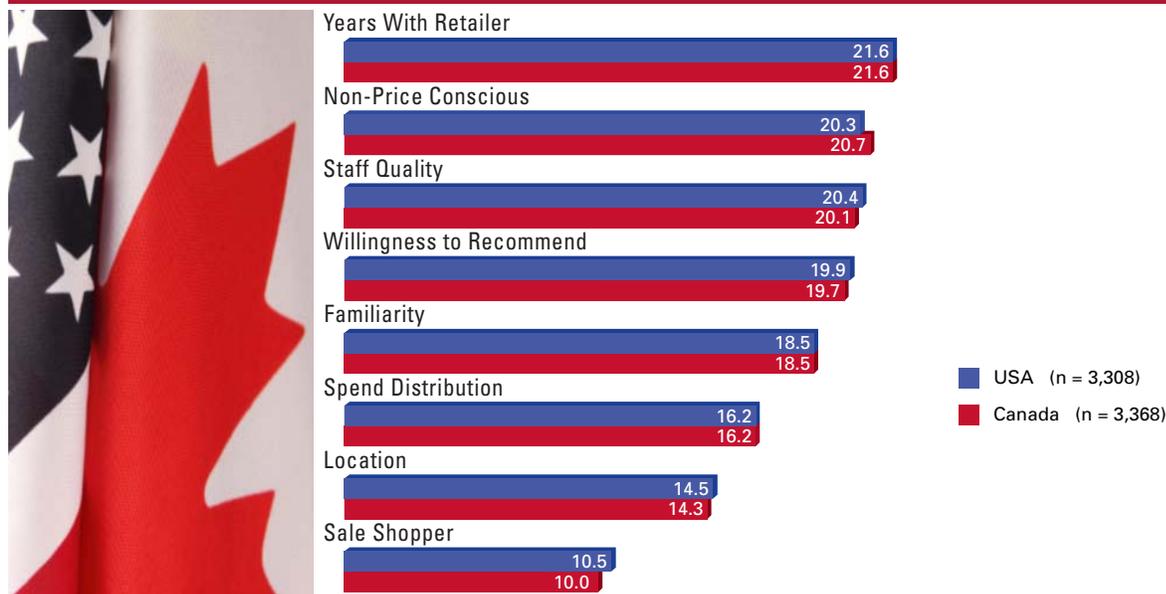
Exhibit 5A
Consumer Rankings of What Demonstrates Loyalty to a Retailer (Choice-Directed Response)
2010 Versus 2008, Canada



Source: 2010 COLLOQUY Retail Loyalty Index study versus previous 2008 study
 • Please read all eight customer experiences below and indicate for each how loyal you think that the customer is to “Total Shopping”—a retailer of groceries, personal care items and medications. Please use a scale from 1 to 25 where 1 means “not at all loyal” and 25 means “very loyal.”
 • n = 3,368 (2010); n = 3,126 (2008)

Once again, looking south for the potential of continued wind chill effects, this trend mirrors the perceptions of the behaviors that constitute demonstrations of loyalty among U.S. respondents. In Grocery and Personal Care, the jumps in Location and Sale Shopper were 12.4% and 25.0% respectively (and were 15.0% and 22.7%, respectively, in the Department Store and Mass Merchant verticals). A harbinger of chilly breezes? Perhaps. Exhibit 5B compares the 2010 U.S. and Canadian rankings of what demonstrates loyalty to a retailer. Across the board, the categories' mean scores are remarkably similar—and in the case of Sale Shopper, perhaps alarmingly similar.

Exhibit 5B
Consumer Rankings of What Demonstrates Loyalty to a Retailer (Choice-Directed Response)
Canada Versus U.S.



Source: 2010 COLLOQUY Retail Loyalty Index study, U.S. and Canadian results

- Please read all eight customer experiences below and indicate for each how loyal you think that the customer is to "Total Shopping"—a retailer of groceries, personal care items and medications. Please use a scale from 1 to 25 where 1 means "not at all loyal" and 25 means "very loyal."
- n = 3,368 (Canada); n = 3,308 (U.S.)

With the Canadian unemployment rate still at 8.1% as of May 2010, according to Statistics Canada, it's too soon to tell if the shift in loyalty priorities is simply a symptom of a weak economy or evidence of what experts are calling "The New Frugality," a phrase suggesting that consumers have taken to heart the lessons learned about unbridled spending in the previous ten to fifteen years. Retailers certainly are playing to those lessons, characterizing their low prices not as "cheap" but as "smart." Even Walmart, the king of bargain shopping, shifted their familiar "Always low prices" slogan to "Save Money. Live Better." Retailers seem to be hearing the message as they have been pushing their bargain banners. For example, Zellers, the mass merchandiser owned by the esteemed Hudson's Bay Company, has moved away from its long-time slogan—"Where the lowest price is the law. Everyday." Zellers has taken a new approach featuring private-label lines of merchandise backed by the slogan "We've checked the price," suggesting that the consumer is making a savvy selection based on value. From such phrasing, consumers can infer that they're getting the best deal without sacrificing the quality of what they purchase for themselves and their families, and that they've made a smart, informed decision and saved money.

In an April 2010 white paper co-produced by American Express and COLLOQUY parent LoyaltyOne titled "Canadian Shopping and Spending Attitudes," LoyaltyOne President Bryan Pearson sums up the current situation: "Canadians are now much more careful and deliberate about how they spend their money . . . Before people hand over their money, they are asking themselves fundamental questions. They are very aware that 'I am the customer, and you've got to work harder for my business and even harder still if you expect to create a genuine and lasting relationship with me.'"

Part III: Post-Recession Prescription for Canadian Retailer Prosperity

In a sense, location north or south of the border has little impact on the basic principles of withstanding the economic wind chill. Retailers must bundle up to face the elements. This doesn't mean fighting ice with ice, however. There can only be one true winner in the EDLP approach. After all, there can only be one low-price "leader." More important, trying to match that EDLP game is, at best, counterproductive and, at worst, damaging in the long-term as consumers are further conditioned to expect discounts and barebones pricing in addition to the expectations they already have of their favorite brands.

How, then, can conventional retailers hold onto current customers or regain customers they may have lost during the recession? The following are essential components of a strategy for retailers who understand that price does not trump all.

In a sense, location north or south of the border has little impact on the basic principles of withstanding the economic wind chill. Retailers must bundle up to face the elements. This doesn't mean fighting ice with ice, however.

- **Be wise about where you can win.** It's essential that you strive to be number-one at what you can. After all, few retailers have the scale to combat Walmart at their EDLP approach, when their business models are so well-honed at wringing every penny out of operational efficiencies. However, can you win with the best selection? The best in-store service? Or—even better—can you win by being the best at really knowing your most profitable customers and what they want?
- **Adapt your value proposition to deliver more value.** You may not be able to beat the low-price leader in hand-to-hand combat on the lowest prices, but while the recession hangs on, consider promotional elements in your offering to your best customers. For example, the convenience of automated couponing or guaranteed sales prices can bolster the value customers derive from your program. Also, consider the role of partnerships—whether that be partnerships with your merchants or noncompetitive companies—in augmenting the value customers receive in return for their loyal shopping behavior.
- **Collect the customer data you need to succeed.** To drive loyalty success throughout the enterprise, make sure you cast a wide net and collect the customer data you need. The enterprise loyalty vision, as COLLOQUY has laid out, is built on the foundation of customer-specific data and leveraging insights that can fuel effectively relevant communications, pricing and product selection for your most-profitable customer segments.
- **Get intimate with customer insights.** The days of using customer-specific data to simply drive targeted offers are now relics of a simpler time. The global economy—and one that is struggling to right itself—demands a more-comprehensive approach to win at customer intimacy. With analytical insights about your most profitable customers in hand, you must work to adapt your product mix to keep them happy and coming back. Think about how you can adapt your pricing strategy to lead with low prices on the right products for those customers without eroding overall profit margins.
- **Look local.** While consumers viewing "location" as an increasingly important loyalty driver could be considered a negative—another chirp from the canary in the mine warning of devotion to frugality—it can also be seen as a strong actionable positive. Canadians demonstrate pride in their homeland businesses. Make consumers even prouder of your success and history by more vigorously analyzing and serving their needs and their pursuit of value. Examine additional marketing possibilities within a tighter range of your retail locations' footprints to court nearby customers who have not shopped with you, or who have shopped with you infrequently. Look to the data to identify such opportunities within to reactivate or encourage greater activity from best customers within closer physical proximity.

Evidence points to the staying power of the new customer frugality borne of tight times, financial setbacks and a lingering public malaise—even if those factors aren't as prevalent among Canadian consumers as they are among U.S. consumers. As those factors begin to dissipate, a certain level of frugality and price-consciousness will remain with customers. But frugality needn't communicate cheapness. Rely on your strengths to deliver increased value propositions to satisfy the new frugality in the *most critical categories for your best customers*. Win in delivery of superior service or selection for *those customers that contribute the most to your bottom-line*. Through that combination, your customers will recognize that they're ultimately coming out ahead.

Appendix: Notes on Survey Design

The COLLOQUY Retail Loyalty Index, introduced in 2008, asks consumers to name the brands to which they feel the strongest loyalty, and seeks to learn more about the drivers of that loyalty, regardless of the presence or structure of a formal customer loyalty program.

The 2010 Index surveyed 3,500 U.S. consumers and 3,500 Canadian consumers. Respondents received email invitations to complete an online survey regarding their definition of retail store loyalty and their opinions about and reasons for professing loyalty to their favorite retailers. Respondents received a series of questions in two categories:

- Open-ended questions designed to understand and create a consumer-driven definition of retail loyalty. These questions asked respondents to think about retailers to which they felt loyal and then to elaborate on the fundamental reasons behind that loyalty.
- Response-driven questions designed to understand from which retailers respondents purchased most often, what behavior they exhibited in their loyalty to those retailers, and what influencers they most closely related to their loyalty.

We designed the research questionnaire to specifically explore standard retail archetypes in four categories: Grocery, Personal Care, Department Store and Mass Merchant. We also included select mass merchandisers and membership clubs that sell grocery products.

We then took the survey data and analyzed it to answer the following questions:

- How do consumers define the concept of retail loyalty?
- At which retailers do consumers shop most often?
- To which specific retailers are consumers most loyal? How do these retailers compare to those at which consumers shop most frequently?
- What are the fundamental elements of the retail experience that drive store loyalty? (In other words, why are consumers most loyal to specific retailers?—selecting from 11 possible attributes.)
- What specific consumer behaviors are most illustrative of loyal customers?
- Which defined drivers are most closely correlated with brand loyalty?

In reviewing the “Index Leader” data in this white paper, readers should bear in mind that the sample size varies for each retailer and is not always representative of that region’s population as a whole. Still, these retailers were cited by enough of our respondents that we feel it appropriate to acknowledge their performance in the loyalty arena.



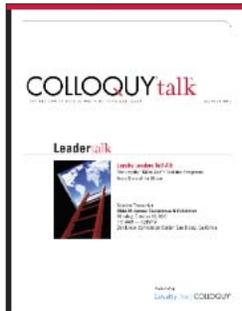
The Author

As COLLOQUY Partner, **Kelly Hlavinka** has helped define and carry out COLLOQUY's mission as the voice of the loyalty industry since 1996. Drawing on her 20 years as a loyalty specialist, Kelly develops articles, white papers and educational initiatives that illuminate the many ways to unlock the asset of customer-specific data for her clients. Kelly has shared her expertise with correspondents of *The Wall Street Journal*, *The New York Times*, *USAToday*, *Brandweek*, *BusinessWeek*, *Advertising Age* and *SmartMoney*. A sought-after presenter, she has taught loyalty-marketing workshops and webinars around the world. Kelly in 2003 launched and managed COLLOQUY's strategic consultancy, working with clients such as Lennar Homes, MGM MIRAGE, Eddie Bauer, Best Buy, HP and American Express. Prior experience includes positions managing membership programs with Buyers Choice (now The Polk Co.) and the National Wildlife Federation, and she has held database-marketing positions with ACS and Equifax Consumer Direct.



The Publisher

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COLLOQUY is owned by **LoyaltyOne** (formerly Alliance Data Loyalty Services), which works with more than 100 of North America's leading brands in the retail, financial services, grocery, petroleum retail, travel, and hospitality industries to profitably change customer behavior. Through a team of businesses, each specializing in a loyalty discipline, LoyaltyOne designs, delivers, and manages a suite of loyalty marketing services—consumer data, customer-centric retail strategies, direct-to-consumer marketing, loyalty consulting, and more. In addition to COLLOQUY, the companies include:



- **LoyaltyOne Consulting** is comprised of a group of internationally-recognized practitioners who design and implement loyalty-marketing strategies for Fortune 1000 clients.
- **The AIR MILES® Reward Program** is Canada's premier coalition loyalty program. More than 10 million active Collector accounts, representing approximately two-thirds of all Canadian households, actively participate in the Program.
- **Direct Antidote** is a loyalty-marketing agency specializing in data-driven creative campaigns that transform customer behavior to deliver on short-term return on investment, while building profitable relationships for life.
- **Precima** is an advanced analytics firm that translates retail customer data into critical insights to better align marketing, merchandising and operations strategies with shopper needs.

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