LARRY LOCKSHIN

REWARD YOUR LOYAL BUYERS, OR NOT?

By all means reward your loyal customers, but don't stop there, says Larry Lockshin. Reaching the other 80 percent of your customers is necessary for sustained patronage and growth.

Many wineries have a club or mailing list, usually built from cellar door visitors and repeat buyers. These customers are usually offered special deals that are unavailable to other buyers. This seems like a good marketing practice – attract and then reward those consumers who buy more wine and often more frequently than others. Having a wine club and attracting consumers to it is a good idea, but giving them financial rewards (discounts) is not. And continuing to attract and replace your club members with new ones is just as important as having a club in the first place.

When the original Flybuys club was started in the 1990s by Coles-Myer, Shell and other retailers, the Ehrenberg Bass Institute for Marketing Science conducted ground-breaking research on who joined and what effect the club had on loyalty (repeat purchasing). The conclusions we found were that: a) mainly existing shoppers of the retailers joined; the club did not attract shoppers from competing retailers (like Woolworths, David Jones or BP) and b) the biggest rewards were earned by people who were already frequent (loyal) users of the retailers. Since then, it has been accepted that loyalty clubs are really defensive marketing ploys: they help retain existing customers rather than attract new customers. They also reward existing heavy buyers and do not increase the frequency or amount of purchasing that would occur without the club.

I am not arguing for wineries to close their wine clubs or special mailing lists. On the contrary, recent research conducted by Johan Bruwer, Anthony Saliba and I showed that winery visitors who are members of any wine club, buy more wine than visitors who are not members of a wine club. Frequent wine buyers tend to self-select by joining wine clubs and then buying wine. They would probably do so anyway, but being a member is a signal of greater than normal interest in wine and frequent (heavy) purchasing. Our research, funded by AGWA, also showed that these heavy buyers were more likely to buy the brands of wineries they visited in the next six months than light buyers or first-time visitors. The good news is that even first-time visitors bought more wine of the wineries they visited than wine drinkers who did not visit the cellar door. There is a long-term positive effect of a winery visit. Asking people to join your wine club or mailing list will help identify the better customers for the future.

This all sounds good, although research shows heavy (regular) buyers would likely buy anyway without any financial rewards being offered; just reminders should be enough. But there is another facet to this discussion: today's loyal buyers are not necessarily tomorrow's.

Most businesses think that the Pareto Principle is 80:20. This was true for land ownership and wealth in Venice in the 17th century, but it is not true for the customers of brands. Research at the Ehrenberg Bass Institute for Marketing Science using purchases in 15 different categories across several countries shows that the balance is about 60:20. Between 55 and 60 percent of purchases come from the top 20 percent of customers. As a result, a little less than half the purchases come from the less frequent 80 percent of a brand's buyers. Our research also shows that only about 50 percent of this year's current heavy/loyal buyers are heavy buyers the following year; and the sales contribution of the remaining 50 percent drops by about 15 percent.

This sounds dire, but it is only due to probabilistic behaviour, not a conscious choice in most cases. Many heavy buyers are actually stocking up, buying for a special occasion, or just happened to like the product and buy a lot. The next year, some may have moved away, passed away, bought a large amount of another wine brand, become pregnant, etc. Even the most highly sought after wine brands have churn (the technical term for current customers leaving and new ones starting). A high percentage of heavy buyers remain heavy buyers of the category, but their heaviest purchases switch to another brand. These buyers may come back to your brand in another year; some will and some won't. We know that heavy category users buy more different brands than light users, so it is understandable if they buy more of one brand in one year and more of another in the following year.

The strategic recommendation from these research findings is simple. Wineries must continue to work to attract new customers. You cannot survive on existing loyal customers over time. Some of your light or infrequent buyers will become heavy buyers, just as some of your heavy buyers will buy less or even nothing in the following year. It is fine to offer some incentives to club members or, even better, make special offers but avoid discounting. But it is also necessary to continue to attract new customers and build your club and mailing list.

Many wineries hold special events for their loyal buyers and only invite them. This could be a mistake. A winery needs to have a range of marketing activities that contact a wide range of potential customers. Marketing activities should be evaluated on reach – how many unique individuals come into contact with the communication or event. It is my observation that many wineries' marketing reaches mainly existing regular buyers and does not contact many/any new potential buyers.

Reward your loyal buyers, but don't stop there. Reaching the other 80 percent of your customers is necessary for sustained patronage and growth. ■

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