# NECTAR – LOYALTY BRINGS SWEET REWARDS

The Nectar (.nectar.com) loyalty programme was launched in 2002, to much fanfare. The scheme was backed by £50 million pounds worth of advertising and direct marketing spend to support the launch. A number of organisations joined forces to launch this coalition loyalty programme; Sainsbury's, Barclaycard, Debenhams and BP amalgamated their existing loyalty schemes under one umbrella brand called Nectar. All of the partners' existing rewards programmes, such Sainsbury's "*Reward*" card, Barclaycard's "*Profiles*" card and BP's "*Premier*" scheme were phased out within a year of the launch of Nectar and their members encouraged to transfer to the Nectar scheme. For many partners, it was their first foray into the field of loyalty programmes. However, since its inception in 2002, some of Nectar's launch partners are no longer involved in the scheme; Barclaycard ceased membership in August 2005 and Debenhams followed in their footsteps February 2008. On the contrary, other retailers have joined the scheme. In May 2009, Homebase replaced their loyalty programme, 'Spend & Save', which had been in operation for 18 years, with Nectar's loyalty scheme, as customers has expressed that there was greater value to be had from it than Homebase own loyalty programme.

Consumers who use their Nectar card at participating outlets collect points, which can then be then redeemed against free flights, meals, vouchers etc. An independent company called Loyalty Management UK (LMUK) coordinates the Nectar scheme. The programme's management is outsourced to LMUK, allowing the consortium's partners to concentrate on their own businesses. The scheme has become the biggest loyalty scheme in the UK overtaking Tesco's "*Clubcard*", Boots "*Advantage Card*" and Air Miles, capturing 50% of the UK's twenty five million households. Ironically LMUK's chairman, Keith Mills was the founder of Nectar's rival Air Miles, now a subsidiary of British Airways.

Loyalty programmes are nothing new in the UK; people can still remember collecting the Green Shield Stamps. The Nectar scheme is different from traditional loyalty schemes in that merchants pool together their resources, which helps spread the costs associated with setting up the infrastructure and the operation of such an initiative. Furthermore, card subscribers can pool their points from a variety of firms rather than a single merchant, greatly enhancing points earning potential, making rewards more attainable and attractive to customers. Nectar has also established an eStores scheme, where points are earned by purchasing products through several well known online retailers, such as GHD, National Express, Orange, o2 and Nokia.

The registration process is simple; interested users can pick up a Nectar leaflet (with card attached) from participating partners and post their registration details back to Nectar or complete their registration online. Alternatively, if an individual does not have a card and wants to sign up they can register online and Nectar will send a card to them. Shoppers can then view how many points they have collected by viewing them online in "*My Nectar*" or by phoning the Nectar call centre.  Nectar points are exchanged for Nectar vouchers (*500 Points equals 1 Nectar voucher*).  These vouchers are collected at the card subscribers' home Sainsbury's (*the store where they first used their card*) or again via the Nectar call centre, where the vouchers would be sent out in the post.

**Figure 1 – Nectar Reward Programme Participants**

Loyalty cardholders can avail of the Nectar scheme in over 7,000 stores and companies, from 16 different sponsors. Nectar Points are collected by:

- Shopping at Homebase- 2 Nectar Points for £1
- Childs Trust Fund – Nectar Points are allocated for registering and direct debit payments
- D&A Opticians - 2 Nectar Points for £1
- Shopping at Sainsbury's – 2 Nectar Points for £1, 1 Nectar Point per litre of fuel
- Filling up at participating BP filling stations - 1 Nectar Point for 1 litre of fuel
- EDF Energy – Points are allocated for registering, prompt payment, direct debits & self-read.
- Using Ford Dealers - 2 Nectar Points for £1 on servicing, repairs and MOTs of Ford cars
- Expedia.co.uk – 200 Nectar points for Hotel only, Flight only and Car Rental. 1000 points when you tailor make your own package holiday including air travel
- Gala Bingo – 2 Nectar Points for every £1 spent on Bingo Books, Party Bingo, Wiz or at the Bar or Diner
- Hertz Car Rental – 2 Nectar Points for £1
- American Express – 2 Nectar Points for using Nectar American Express card, plus additional Nectar points if shopping at participating shops.
- Mobile2Points – Can collect up to 12,000 Nectar Points for trading in Old Phone (depends on make and model)
- Dining at TableTable – 2 Nectar Points for £1
- Thomson Local Advertising Directory – Get Nectar Points when you call a business that has Nectar logo on it
- Nectar Insurance – in conjunction with Confused.com- Collect 1000 Nectar Points (double points for limited time periods) when you take out an insurance policy for your home or car
- Joining the AA - 2 Nectar Points for £1
- Eating at a Beefeater restaurant - 2 Nectar Points for £1
- Eating at Brewers Fayre - 2 Nectar Points for £1

By using Nectar eStores, cardholders can redeem points at over 200 different online stores. Participants include amazon.com, apple.com. hmv.com, cdwow.com, ebay.com, dell.com, dixons.co.uk etc.

Trouble arose for Nectar during its first week of operation. Subscribers were encouraged to register for the scheme via the Nectar website, for doing so members would be rewarded an additional 100 bonus points. However the website collapsed under the strain of demand, when it experienced 100,000 hits per minute. The website was allegedly forced to close when customers could see personal data of other shoppers. The collapse of the website, forced LMUK to direct customers towards the Nectar call centre. LMUK was forced to pull press and TV advertising (*which featured Sainsbury's successful celebrity endorser Jamie Oliver),* just after a week of launch because it could not cope with registrations. Nectar came under fire from industry rivals as a result, by highlighting that a significant number had not been registered (*I.e. given their personal details*), which negated the usefulness of the purchase information gathered. Subscribers don't have to register until they want to claim their rewards.

At the launch of Nectar's loyalty programme, Sainsbury's was put under fire by the media, who lambasted the scheme as offering poor value to customers; shoppers would now have to spend more to avail of free deals with Nectar than they would have under Sainsbury's old Reward Card scheme. To earn a free flight to Amsterdam for example, a shopper would have to spend £3,000 under the nectar scheme, yet under the old scheme only £2,500. Newspapers such as the Guardian highlighted stories of weary points collectors having to collect 1,000s of more points due to the changes in the reward structure. One exasperated, elderly woman was shown to have collected 12,927 points on her Barclaycard (the equivalent of having spent £129,270) and was just 73 points short of obtaining her dream holiday of a return flight to Australia on the old scheme. As a result of the changes, the 70 year-old lady needed another 74,500 nectar points. More problems arose when the Independent Television Commission ordered Nectar to amend their television ads, due to them being misleading. Some 71 BP filling stations were not participating in the Nectar scheme as they share sites with Morrison supermarkets. In future, Nectar had to make it clear of this restriction. Rewards have to be viewed as achievable and relevant to customers.

Nectar's chief rival, Air Miles (www.airmiles.co.uk) loyalty card holders can attract shoppers who want 'aspirational' rewards such as a flight to Australia, whilst Nectar shoppers may simply want basic rewards such as a free video rental or expensive flights. Therefore, the Nectar scheme attracts both high and low spenders. Loyalty schemes try to entice new shoppers and reward existing customers, through increasing their level of purchasing. Nectar is trying to mimic the success of a similar scheme in Germany called "*Payback*". The Payback scheme is not reliant on a single supermarket retailer, however it joined up several big brands in different sectors to create a broad appeal. Payback combined brands such as a leading grocery brand, a department store, a pharmacy chain, an Internet service provider and a credit card company.

Increasing purchasing volume is the card's primary mandate, however the scheme can also incentivise card holders to do certain tasks, that can save a firm money such as electricity supplier EDF rewarding prompt payment of utility bills.

At the time of the Nectar launch, Air Miles ran a £20 million promotional campaign to minimise the impact on their business from the threat of this new rival. The "*Great Air Miles Giveaway*" reduced the number of points needed for over 500,000 flights. In addition, Airmiles is always looking for new partners to add as they try to compete with the UK'S leading loyalty programme. Some of their current partners include Lloyd's TSB, Avis car rental, Shell Fuel, Sunday Times etc. Another competitor in the loyalty programme arena is the independent "*BuyandFly!"* points scheme. Partners within the "*BuyandFly*!" scheme include UCI cinema, OK magazine, and Domino Pizza. However, "*BuyandFly*" has struggled to compete with its rivals in the last number of years, with its main problem being a lack of partners to support the initiative.

When Tesco launched their "*Clubcard*" loyalty programme back in 1995, it was primarily used to make improvements in their supply chain management but it has since evolved into improving relationships with customers. Much of Tesco's success has been attributed to its "Clubcard", as it helps the giant retailer make better-informed marketing decisions, through its extensive customer insight on the nation's purchasing behaviour. In more recent years, Tesco has also introduced a limited number of partners to its "*Clubcard*" loyalty scheme, where shoppers can earn points by utilising partners such as Avis and Marriott. However, unlike Nectar, Tesco still control the branding of the loyalty scheme and manages the operation of the programme. Tesco have renewed their "*Clubcard*" loyalty scheme programme several times and when doing so offer something back to the customer. In conjunction with the 'Clubcard re-launch in May 2009, Tesco developed their 'double points' initiative, which offers customers double points on all purchases made in-store or online. Tesco have also formed a relationship with Air Miles, where customers can transfer their Tesco Clubcard vouchers into Air Miles, maximising the appeal to their loyalty card holders.

Nectar believes that it has several key advantages over other loyalty schemes. Firstly, the costs of operating such a "coalition" scheme are greatly reduced due to the shared costs of having multiple partners involved. Secondly, partners in the scheme can avail themselves of a much richer data bank on their customers, analysing their purchases across a cross section of different products and purchased in many different outlets. Finally, by leveraging several big brands rather than one single supermarket, the loyalty scheme has a much broader appeal, as rewards are more attainable due to number of different participating partners available, where points can be built up more quickly. In addition to this, Nectar run frequent promotional offers with their partners and e-stores, where members can obtain discounts, earn bonus points and double points on certain purchases of shoes, clothes, jewellery, household goods etc for a limited time. This provides a further incentive for people to sign up to the scheme.

LMUK feels that the core strength of the Nectar scheme is the variety of firms participating in the scheme, making it hard for other schemes to replicate, giving it a unique selling point to interested subscribers. In 2002, LMUK announced that Nectar had overtaken Tesco's "*Clubcard*" as the UK's most popular scheme attracting 11.1 million active users. Tesco had previously stated in its press releases that it had 10 million users. Tesco hit back by claiming that its "*Clubcard*" scheme has 13.14 million users who have used their card in the past 12 months. This was an effort to reassert their claim that Tesco's "*Clubcard*" was the UK's "most popular loyalty scheme". Boots then entered the race, as to see who was the biggest by announcing that they had 14 million holders of their Advantage card, however only 10.5 million of these had used their card in the past three months. Airmiles has 6.5 million registered users. When Sainsbury's terminated their contract with Air Miles in 2001, they estimated that it accounted for a fall of 1% sales revenue in one quarter. Commentators suggest that some shoppers switched to shops that participated in the Air Miles scheme after having accumulated substantial points in the past and wanting to cash in on their points.

Selling flights to loyalty programmes represents highly lucrative revenue streams for airlines. A surprisingly high proportion of airline income derives from the sales of frequent flier tickets to retailers, credit card companies and hotels for their loyalty programmes. In the US, the top five airlines earned close on $2 billion from the sales of frequent flier points. For airlines, loyalty programmes are profit earners, whereas for other merchants, they represent significant costs. Airlines simply fill seats, which would otherwise not be filled; yet other merchants are rewarding customers with gifts that cost money (*e.g. £10 shopping voucher*). Advocates of loyalty programmes argue that the information obtained from loyalty schemes helps organisations better understand their customers and their needs, helping them to readjust their product and service offering as a result. Nectar claims to have purchasing data on nearly 50% of all UK households. This information can be data mined using customer relationship management software programmes, analysing a firm's customers over time, their preferred brands, their buying patterns and their response to price promotions etc. This information in turn helps stores with the development of new products and the future design and layout of stores. They view this data as essential feedback from customers, which is even more important than the loyalty itself. Specially designed promotions can be sent to households based on their purchasing behaviour *(e.g. vouchers for nappies, if baby food has been purchased etc.).*

Many retailers such as ASDA and Safeway have abandoned loyalty programmes in favour of EDLP (*Everyday Low Pricing*) strategies or BOGOF's (*Buy One Get One Free*) offers. They feel that customers are attracted into their stores by offering good value for money deals, not through complicated reward schemes. Many retailers believe that the costs simply outweigh any benefits of running a loyalty programme. The costs of offering a loyalty programme can be quite substantial. Not only does the organisation have to consider the cost of the rewards, such as a free flight but also the operating costs of running the initiative. In 2000, it is estimated that the top 16 retailers in Europe spent over $1 billion on consumer loyalty programmes. Costs include the issuing of cards, operating a call-centre, mailing costs, staffing costs and the design and operation of customer database etc. When Safeway pulled the plug on its loyalty scheme, it was costing the firm an estimated £60 million a year to run. ASDA cancelled its trials of their points card in 1999 after testing in 19 of its stores. Boots Advantage card cost £20 million to set up. Opponents of loyalty programmes argue that the level of outlay required would be better allocated to improving customer service levels within stores or offering customers better deals, which they find both tangible and valuable.

Research has shown that customers really value things like good customer service, low prices, availability of toilets and in-store coffee shops rather than loyalty programmes. Some supermarkets experienced a growth in their sales figures after their programme was axed, due to greater promotions offered by the store as a result. Increasing customer loyalty is very elusive for retailers and other merchants; many commentators feel that loyalty cards simply repay loyal customers, rather than increasing their loyalty to the brand. Independent research has shown that some retailers who have no loyalty schemes in place, in fact have higher scores for loyal shoppers such as ASDA, Waitrose & Morrisons. Recently, some US academics have found a weak correlation between profitability and customer loyalty longevity, which goes against popular marketing notions that regular customers are cheaper to serve, less price-sensitive and create positive word of mouth for the firm. People often stay loyal to a brand simply because of inertia and the whole inconvenience of changing.

Many consumers are apathetic towards loyalty programmes, as they feel the rewards are minuscule in comparison to the expenditure needed to obtain them and that it takes too long to save up for the reward to justify the effort. For instance, the standard rebate for a loyalty scheme is 1% on the amount of money spent. In other words a supermarket shopper would have to spend over £1,000 pounds in a supermarket to receive a £10 off their shopping bill, which to many shoppers is very uninspiring. In addition, loyalty schemes have been criticised for their messy and lengthy redemption procedures. Furthermore there is a proliferation of competing loyalty cards available. Wallets are being weighed down with tonnes of plastic. Shoppers may possess a wide array of cards in the off chance that they may purchase an item from, Boots, Game, WH Smith or other merchants and avail themselves of any incentive or discount on offer. The term loyalty is a misnomer.

Not everything has gone according to plan for Nectar; one of the key-founding partners, Barclaycard, left the initiative in 2005, stating that customers wanted better rewards such as free travel insurance. Nectar replaced Barclaycard by partnering up with American express. Nectar launched the American Express Nectar credit card, through this card customers can avail of a "double dip", meaning that they can collect double points when purchasing at affiliated stores. Barclaycard are in the process of developing a new loyalty programme for customers and are due to launch in 2010. While no partners have been confirmed as of yet, they do promise that it will be the most widely available loyalty card, at tens of thousands of retailers and it will provide pounds rather than points to customers making purchases online and in stores. Similar to Barclaycard, Vodafone bailed out of the Nectar scheme after two years involvement, stating that it wanted to focus on offering cheaper prices to customers. Only 13% of Vodafone's customers took advantage of the Nectar offer. If other key partners such as Sainsbury's pull out it could mean big trouble for the future viability of Nectar. The company has now launched "Nectar for Business", where business people can avail of rewards based on purchases from selected partners such as an office supplies company, and a plant hire operator.

LMUK estimates that over £500 million worth of Nectar rewards have been used by cardholders, in addition that 19 Nectar cards are swiped every second of every day. Will Nectar's loyalty programme continue to be rewarding for both Nectars partners and more importantly their cardholders?

**Questions**

1. **Discuss the advantages and disadvantages associated with retailer loyalty programmes such as Nectar's from both a customer and retailer perspective.**

2. **Discuss the main applications for the information gathered on customers who use their Nectar loyalty cards.**

3. **What do you believe are the key factors in launching a successful loyalty reward programme?**

4. **Outline the strategic options available to Air Miles, in response to the growing threat from Nectar, recommending what you believe to be the best option available, giving reasons for your answer.**

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