Nectar: Loyalty Brings Sweet Rewards

Nectar (www.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 all phased out within a year of the launch of Nectar and their members are encouraged to transfer to the Nectar scheme. For many partners it was their first foray into the field of loyalty programmes. Consumers who use their Nectar card at reward partners, collect points, which can be then redeemed for free flights, meals, vouchers etc. Now the national reward scheme is over 10 years old with over 18.5 million cardholders. This provides the client companies with rich insights into the shopping behaviours of millions of households. Now Barclaycard, and Debenhams have left the original scheme.

An independent company called Aimia coordinates the Nectar scheme. The programme's management is outsourced to Aimia, 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 16 million "*Clubcard*" members, the Boots

"*Advantage Card*" and Avios (*formerly Air Miles*), capturing 50% of the UK's twenty five million households. 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 are pooling together their resources, which helps spread the costs associated with setting up the infrastructure and the running 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. Interested users simply pick up a Nectar registration leaflet and card from a Sainsbury's store, Homebase, a participating BP service station, a Ford dealer or participating partner. Then card subscribers can return the completed registration form by post or by registering online. Now Nectar has established an eStores scheme, where points are earned through purchasing products through several well known online retailers, including the original format partner Debenhams. Shoppers can 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. These vouchers are spent in-store with a swipe of the client's Nectar card, ordering online, or calling their call centre.

Figure 1 – Nectar Reward Programme Participants

Loyalty cardholders can avail of the Nectar scheme in over 4,000 locations.

Nectar Points are collected by;

- Shopping at Sainsbury's – 2 Nectar Points for £1
- Filling up at participating BP filling stations - 1 Nectar Point for 1 litre of fuel
- Shopping at Homebase stores - 2 Nectar Points for £1
- Shopping at Vision Express - 2 Nectar Points for £1
- Using Hertz Car Rental - 2 Nectar Points for £1
- Using Ford Dealers - 2 Nectar Points for £1 on servicing, repairs and MOTs of Ford cars
- Points through buying British Gas products and services
- Points through buying on Expedia.co.uk
- Points through using American Express

By using Nectar eStores, cardholders can redeem points at over 500s different online stores. One of the largest affiliate marketing programme of its kind. Participants include amazon.com, argos.com, Debenhams.com, currys.com etc.

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 the utility supplier British Gas rewarding prompt payment of utility bills. Interestingly many companies have adopted out of participating in the scheme over the years, for example Barclaycard, Debenhams, and EDF energy. They may have opted out for a variety commercial reasons as there are significant associated costs.

Table 1 – Some of Nectar Rewards Programme Participants

Holidays, Flights & Travel	Eating Out	Excursions
Expedia.co.uk National Express Easyjet Lonely Planet AA The London Pass Eurostar Hertz Confused.com	Café Rouge Bella Italia Strada Restaurants	Legoland Vue Cinemas The Dungeons Sea Life Eden Project
Groceries, Clothes	**Good Causes**	**Entertainment**
Argos.co.uk Sainbury's Homebase Debenhams.com Adams BP Burton	Oxfam Action for Children	iTunes Lovefilm.com Amazon.co.uk Sky Blockbuster

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 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. And finally, by leveraging several big brands rather than one single supermarket, the loyalty scheme has a much broader appeal. Hopefully customers view that rewards are more attainable due to number of different participating partners available, where points can be built up more quickly.

Figure 2 – Typical Rewards

£2.50 off meal at Café Rouge	– 500 Points
£2.50 off Movie Rental at Blockbuster	– 500 Points
£2.50 off Easy Jet Flights	- 500 Points
£10 off Shopping at Sainsbury's	– 2,000 Points

500 Points equates to £2.50
5,000 Points equates to £25.00
10,000 Points equates to £50.00

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 Aimia to direct customers towards the Nectar call centre. Aimia 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 (*ie. 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 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 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.

Tesco, launched their "*Clubcard*" loyalty programme back in 1995, it was primarily used to make improvements in their supply chain management, but has evolved into improving relationships with customers. Tesco has also introduced a limited number of partners to its "*Clubcard*" loyalty scheme. Shoppers can now also earn points by utilising partners such as Avis and Marriott. However Tesco still controls the branding of the loyalty scheme and manages its operation. Much of Tesco's continued 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. Tesco also rewards customers who have significant weekly spend, with additional points.

Avios (formerly Air Miles), the original and pioneering loyalty scheme ran a £20 million promotional campaign to minimise the impact on their business from the threat of this new rival. This was a pre-emptive strike, just before the launch of Nectar. The "*Great Air Miles Giveaway*" reduced the number of points needed for over 500,000 flights. In addition, Avios has added the Shell and Lloyd TSB as partners. Furthermore, Tesco renewed their "*Clubcard*" loyalty scheme programme, by offering their cards at their checkouts for the first time, launching an offers magazine called "*FreeTime*" and emphasising their tie up with Avios in their marketing communications.

Aimia 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, Aimia announced that Nectar had overtaken Tesco's "*Clubcard*" as the UK's most popular scheme attracting 11.1 million active users at the time. 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. Avios has 6.5 million registered users. When Sainsbury's terminated their contract with Avios (then 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 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, 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 (now part of Morrisons) had 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. There are huge costs in running a loyalty card scheme which include: the issuing of cards; operating a call-centre; mailing costs; staffing costs; 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 Homebase, Boots, Game, WH Smith or other merchants and avail 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 has left the initiative. In August 2005, Barclaycard pulled out of the scheme saying that its customers wanted better rewards such as free travel insurance, similarly after two years with the project Vodafone bailed out of the scheme saying that it wanted to focus on offering cheaper prices to customers. Only 13% of Vodafone's customers availed 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. It 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. 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. Furthermore the company has launched Daily Deal offers, in an effort to replicate the success of daily deal sites like Groupon. If a cardholder buys a deal, they get extra points.

Aimia estimates that over £1.5 billion worth of Nectar rewards have been availed of by cardholders, in addition that 22 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?

Case Questions

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

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

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

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