

TITLE

Essential Elements of Successful Convenience Store Reward Programs

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INTRO SECTION

TITLE

Introduction: The Challenges and Benefits of a Rewards Program

BODY

Rewards programs are widespread among convenience stores for one simple, but powerful, reason — the substantial revenue benefits that come from associated incremental visits and sales.

An effective rewards program:

- Motivates customers
- Drives profitable incremental behavior
- Leverages vendor funding to drive your results
- Enables you to run compelling, relevant, targeted promotions

A well-designed program also gives you a clear measurable loyalty impact, measured by:

GRAPHIC

Number of members enrolled X % of members active X the sum in spending changes it generates.

Successful rewards programs, however, can be very difficult to create. They require a solid understanding of the various options and potential offers as well as the goals you can associate with them. A carefully crafted plan is key at the outset.

It's also important to remember that a poorly designed program doesn't just make success more challenging — it makes it nearly impossible. Additionally, an unsuccessful rewards program also wastes a great deal of money and manpower.

This whitepaper outlines the essential elements of a successful rewards program. It also delves into more advanced tactics, including layering promotions and leveraging vendor funding to meet your own goals. By the end, you'll be ready to create a successful rewards program of your own.

1: The Building Blocks of a Core Program

BODY

The purpose of a rewards program is to change your customers' behavior — to get them to visit more often and/or to get them to make more purchases.

The methods for changing these behaviors are broken into two elements: the core program and the layers and promotions.

The core program is the “published” piece of your program. It consists of what customers see promoted in your store, what they talk about, and what they compare with your competitors' loyalty programs. The core program is the foundation of your rewards program.

The layers and promotions element, which is addressed in more depth in the next section, consists of the challenges, bonuses, and occasion-based rewards that you can add to your core program.

There are six building blocks of a core program, which can be implemented on their own or combined with others.

Core Program Building Blocks

1. **Earned Points.** This is the program element that most people think of regarding rewards. People can earn points for making purchases or taking other specified actions, and accrued points may be traded in for various rewards. Your earned points program can also include vendor-funded bonus points in which people earn rewards for purchasing items in a vendor-funded promotion.
2. **Fuel Discounts.** This is another common element in convenience store (c-store) loyalty programs, and it often offers discounts per gallon of gas. It's important to note that these discounts don't have to be uniform; for example, you could always offer three cents off per gallon or you could offer 10 cents off per gallon during the first month of membership.
3. **Club Programs.** Many people associate punch cards with club programs, but it's also very easy to implement a digital “buy x number of items, get something free” promotion. Running a club program digitally instead of with punch cards allows you to track your customers' behavior, communicate reminders about their standings, and incentivize them to visit.

4. **Member Pricing.** Offering popular items, such as coffee or soda, at a lower price for members than for non-members can be especially effective for generating program sign-ups. People naturally want to save on items they purchase regularly.
5. **Sweepstakes.** Generally, c-stores use sweepstakes promotions to reward members with automatic entries. Beyond that, though, they can allow members to buy products or redeem points to earn extra entries, incentivizing them to make more purchases.
6. **Tiers.** Creating different levels of membership adds complexity to a rewards program, but it can be very useful for motivating your competitive customers to take action. You can offer advancement to new tiers via purchases and/or visits, vary your rewards by level, and even demote levels if activity tapers. It's important, though, to be sure that your tiers — and how customers can navigate them — are easily understood. Otherwise, you invite complicated customer questions.

Once you have your core program in place, you can begin planning your layers and promotions.

2: How to Utilize Layers and Promotions

BODY

Layers and promotions are used to directly, quickly, and profitably change behavior. Most commonly, that behavior change falls into one or more of these categories: driving more visits, encouraging people to purchase at a time they normally would not, or encouraging more profitable or bulk purchases.

The most common types of layers and promotions are challenges, bonuses, and occasion-based rewards.

Challenges. These promotions challenge rewards members to perform actions to earn a prize. For example, a challenge could be: "Get gas five times this month and get a free large coffee" or "Spend \$50 on snack items this week and get a free liter of soda." These challenges are intended to increase visits and spend during a specified period of time.

Bonuses. These promotions often offer an instant benefit for the rewards member; for example, "Purchase a sandwich and large soda, and get a bag of chips for free." Bonuses are primarily designed to increase spend during a visit but, secondarily, they may also increase the number of visits as customers seek to take advantage of a bonus multiple times.

Occasion-Based Rewards. These promotions are dependent on a time of year, such as the holiday season, or around a well-known event. An example of an occasion-based reward could be: "Purchase two bags of chips and get a liter of soda for free during the week leading up to the The Big Game."

While there are multiple options for layers and promotions, the most effective ones will combine three key traits. They will be:

Compelling. The prize or bonus that members can earn must be something they truly desire. Getting people to change their behavior is very challenging and it only happens if people see a clear and strong benefit for them to do so. “Fill up your tank 12 times this month and get 50 cents off a six-pack of soda” may make sense to your bottom line, but it likely won’t be compelling enough to get people to increase their visits.

Attainable. People must believe that it’s possible to earn the prize or bonus or they won’t even try. For example, “Get three cups of coffee every day this month and earn a free tank of gas” certainly has a compelling prize, but visiting three times per day is likely impossible for most customers and so they won’t try to do so.

Finite. Urgency is a strong motivator, so it’s important to set a reasonable end date to your promotion. Week- or month-long promotions are most common since they’re easiest for customers to keep front-of-mind. Longer promotions risk losing excitement, and they also risk having your customers forget about them altogether. It’s also important to make your promotions finite so that you can analyze the results and compare them with other promotions.

3: Goals and Demographics for a Successful Rewards Program

BODY

When you’re designing your rewards program, there are specific statistics you should keep in mind to see the largest increase in visits and revenue.

Your program should be targeted at your “silver-level” customers — your 50%-80% percentile customers. They’re regular visitors, but they visit your competitors, so there’s an opportunity to get them to visit you more often and make more purchases.

To build excitement for your program, you should design it so members can earn their first reward quickly. After that, maintain momentum by letting them earn rewards frequently with low-value redemption options like soda or coffee every five to 10 visits.

Your rewards program should be designed to reward behavior that supports your corporate goals: Program members get points, bonuses, or prizes when they do something that benefits you and supports your initiatives.

As you’ll see in the following sections, even your use of vendor funding should be focused on spurring your results and revenue.

4: How to Leverage Vendor Funding

BODY

When vendors fund club programs, usually the benefits go primarily to the vendor. A “buy 10 X items, get one free” promotion may drive people to purchase more of that single item, but

there are no cross-purchases, there may be no additional visits, and there are no opportunities to upsell.

Instead of accepting vendor-funded programs as is, you can modify them to meet your goals or, even better, to meet your and your vendors' goals.

The first step is to analyze vendor-funded programs to understand the end results. A promotion that switches purchase volume from soda brand A to soda brand B benefits soda brand B, but it likely doesn't drive any extra traffic or incremental traffic for you.

If the promotion is something that solely benefits the CPG vendors, your second step is to find a way to adapt it.

For example, a "buy X items, get one free" could be changed to a "buy X items, earn X bonus points in the rewards program." Your rewards program drives visits and purchases, so focusing on earning points instead of redemptions benefits you while still benefiting your vendor and maintaining that positive relationship.

Vendor funds are both valuable and finite, and you should allocate those funds as if they are your own. It's important to remember, too, that these are your customers — not those of your vendors.

In the next section, you'll find specific examples of the function vendor funding can play in each element of core programs.

5: Vendor Funding's Role in Each Core Program Element

BODY

Historically, c-store owners tend to underutilize or misallocate vendor funds simply by using them in the ways that vendors prefer. Combining vendor-funded programs with rewards programs can greatly increase the power and impact of these dollars.

However, vendor funds are better utilized with some core program elements than others. Below is an overview of how vendor funds can be leveraged with some core program elements and how you can plan these elements to make them most effective.

Earned Points

Key Thoughts:

- Core program should be worth 4%-5% to your customer
- Use vendor bonuses to drive additional value for the customer, offering bonus points on items the vendor would like to sell more of

Role of Vendor Funding:

- Leverage vendor funds for bonus points, not redemptions
- This keeps the customer engaged and interested in earning more bonus points

Fuel Discounts

Key Thoughts:

- Easier to implement if you own more of the distribution channel
- Often tied into the ACH card
- Limit the published benefits and drive results by targeting rewards members

Role of Vendor Funding:

- No role in your core program
- Can be very effective as promotions, such as: “Buy X and get \$0.10 off per gallon”

Club Programs

Key Thoughts:

- Vendors love them and will want you to implement them
- More effective in smaller quantities; avoid overwhelming people with too many promotions
- Try to avoid conflicting programs, such as: “soda brand A versus soda brand B”

Role of Vendor Funding:

- Vendors should pay for these, but be careful about implementing them as is
- Not necessarily the best use of your vendor funding since they tend to benefit the vendors instead of you

Member Pricing

Key Thoughts:

- Best done on margin items that you own — things like coffee and soda
- Good way to drive enrollment; non-members will join to get the lower price

Role of Vendor Funding:

- No role in your core program
- “With Rewards Card Only” promotions funded by vendors, you can boost enrollment and help target price-sensitive customers

Sweepstakes

Key Thoughts:

- You must understand the sweepstakes laws in the areas in which you operate since the laws can be very complex
- Can be very effective at driving traffic and at keeping redemption costs low (offering sweepstakes entries instead of the costs of another type of reward)
- The components of planning and running the sweepstakes require active management; not “set it and forget it”

Role of Vendor Funding:

- Vendors pay for the prizes; a great use of vendor funds
- Can offer bonus entries for items vendors want people to purchase

Tiers

Key Thoughts:

- Add complexity to your program
- Make sure tiers are compelling and members easily understand them
- Can be very successful and give you a way to segment your customers

Role of Vendor Funding:

- Very limited

6: Custom Crafting Your Own Rewards Program

BODY

The benefits and complexities of a rewards program come in nearly equal measure. While well-designed rewards programs can't be surpassed for driving visits and incremental purchases, they are also incredibly difficult to successfully implement on your own.

Paytronix has helped more than 330 distinct brands plan, implement, execute, and evaluate their customer relationship management tactics and loyalty rewards programs.

These digital rewards programs offer the prizes and bonuses that customers value but also provide insight about customer behavior and demographics that allow c-stores to evaluate programs, better target customers, and craft more informed business decisions.

For more information about how Paytronix can help you implement a loyalty program strategy, visit www.paytronix.com or call 617-649-3300, ext. 5.